



Credit Risk Management Practices and Perceived Challenges among Credit Cooperative Clients in the Philippines

Floresito D. Calub*, Judith J. Sanchez, Donald L. Montenegro

North Eastern Mindanao State University, Tandag City, Surigao del Sur, Philippines. *Email: fdcalub@nemsu.edu.ph

Received: 28 December 2025

Accepted: 02 April 2026

DOI: <https://doi.org/10.32479/irmm.23351>

ABSTRACT

Effective credit risk management is central to the sustainability of credit cooperatives, yet limited empirical research examines how these practices are experienced by clients. This study investigated credit risk management practices and perceived challenges among clients of selected credit cooperatives in Surigao del Sur, Philippines. Using a descriptive–correlational research design, survey data were collected from 339 clients selected through proportionate stratified sampling. Descriptive statistics, Spearman’s rho correlation, and multiple regression analyses were employed. Results showed a high level of implementation of client appraisal, credit risk control, and collection policy practices, alongside generally low levels of perceived challenges. Correlation analysis revealed differentiated relationships among variables, with client appraisal practices positively associated with perceived challenges, while credit risk control and collection policy practices were negatively associated with their corresponding challenges. Regression results further identified client appraisal practices as the only significant predictor of perceived challenges. These findings indicate that although credit cooperatives have largely institutionalized effective credit risk management systems, appraisal procedures remain the most perceptually demanding stage for clients. The study contributes to cooperative finance literature by emphasizing the importance of distinguishing between the technical effectiveness of credit risk management and its experiential impact on clients. The findings offer practical insights for cooperative managers and policymakers on refining appraisal processes while sustaining robust control and collection mechanisms to support inclusive, client-centered, and sustainable cooperative lending.

Keywords: Credit Risk Management, Credit Cooperatives, Client Appraisal, Perceived Challenges, Cooperative Finance, Philippines

JEL Classification: Financial Institutions / Microfinance, Risk Management, Financial Development

1. INTRODUCTION

Credit cooperatives remain central to financial inclusion, particularly in developing economies where access to formal banking services is uneven. Through member-based lending, these institutions support household consumption, microenterprise activity, and community-level economic development. However, their sustainability depends largely on effective credit risk management, as loan default continues to pose a persistent threat to institutional stability. Recent studies emphasize that inadequate appraisal, weak monitoring, and ineffective collection systems expose lending institutions to heightened credit risk and financial vulnerability (Bamidele et al., 2024; Zedda et al., 2024).

As cooperatives expand their lending operations, understanding how credit risk management functions in practice has become increasingly urgent, not only from an institutional standpoint but also from the perspective of clients who directly experience these processes.

Credit risk management refers to the structured set of practices used by financial institutions to assess borrower creditworthiness, monitor loan performance, and ensure repayment through defined collection mechanisms (Chen, 2024). In cooperative lending, these practices commonly include client appraisal procedures, credit risk control mechanisms, and collection policies. While these practices aim to reduce information asymmetry and protect loan portfolios,

they also shape how clients perceive and navigate the credit process. Client perception, in this study, reflects how borrowers experience the clarity, consistency, and difficulty of institutional credit procedures. Empirical evidence from community-based financial institutions suggests that even well-designed risk systems can generate perceived challenges when procedures are demanding or poorly communicated (Aranez et al., 2025; Moniruzzaman, 2022; Wang, 2024). Clarifying how these practices are experienced by clients is therefore essential for understanding their effectiveness in cooperative contexts.

Extant literature on credit risk management largely concentrates on institutional outcomes such as portfolio quality, financial performance, and operational efficiency. Studies across microfinance institutions and cooperative societies consistently report that strong appraisal systems, monitoring mechanisms, and collection policies contribute to improved financial stability (Daniel and Boakye, 2025; Teneng and Kehdinga, 2023). More recent work has begun to acknowledge the role of client-oriented practices, showing that borrower treatment and procedural transparency influence repayment behavior and risk exposure (Bamidele et al., 2024; Mwakujonga and Komba, 2024). Nevertheless, most empirical studies continue to privilege managerial or policy perspectives, offering limited insight into how clients perceive the challenges associated with credit risk management practices themselves (Wang and Liu, 2024). Research that explicitly links specific risk management dimensions to client-reported challenges remains scarce, particularly in cooperative settings. This limitation defines a clear empirical gap that warrants focused investigation.

This study addresses the identified gap by examining credit risk management practices and perceived challenges among clients of credit cooperatives in Surigao del Sur, Philippines. Specifically, the study assesses the extent of implementation of client appraisal, credit risk control, and collection policy practices; determines the level of challenges perceived by clients; and analyzes the relationships and predictive effects between these practices and perceived challenges. Grounded in information asymmetry theory, institutional theory, and stakeholder theory, the study adopts a descriptive–correlational research design using survey data collected from cooperative clients. By centering analysis on the client perspective, the study offers a distinct approach that complements existing institution-focused research.

This study contributes to cooperative finance literature by extending credit risk management analysis beyond technical and performance-based assessments to include client experience. Theoretically, it advances understanding of how different risk management components influence perceived challenges in cooperative lending. Empirically, it provides client-level evidence from a provincial cooperative context that remains underrepresented in existing studies. Practically, the findings offer guidance for cooperative managers and policymakers on refining appraisal, monitoring, and collection practices in ways that preserve financial discipline while minimizing unnecessary client burden. By linking institutional risk governance with client perception, the study supports more balanced and sustainable approaches to cooperative credit management.

2. LITERATURE REVIEW

2.1. Conceptual Foundations of Credit Risk Management

Credit risk management encompasses policies and processes that financial institutions use to identify, assess, monitor, and mitigate the risk of borrower default. Effective credit risk management practices include systematic client appraisal, ongoing monitoring of repayment behavior, and structured collection policies (Kesanta et al., 2025). Empirical research highlights that structured risk practices improve institutional financial outcomes by reducing non-performing loans and enhancing portfolio quality (Yuliani, 2024). In cooperative and microfinance contexts, the integration of credit appraisal and collection strategies is essential for balancing financial sustainability with member service objectives. Credit risk management serves as a core risk governance mechanism within financial intermediaries, guiding loan allocation and shaping client experiences. Studies indicate that clear risk frameworks not only limit default exposure but also influence client perceptions of fairness and transparency in lending processes (Okwara et al., 2025). These conceptual foundations provide a basis for understanding how distinct risk practices operate within credit cooperatives and can influence both performance and client perceptions.

2.2. Credit Risk Practices in Cooperative and Community Finance

Research in cooperative financial institutions has increasingly focused on how credit risk processes are operationalized and perceived by members. In deposit-taking SACCOs in Kenya, credit risk management practices such as risk identification, analysis, and control carry implications for financial outcomes and institutional stability (Obondy et al., 2025). While the mediating role of efficiency has been examined, the direct adoption of structured risk practices remains associated with positive performance indicators and member satisfaction. A study of credit risk management and practices within community-based microfinance institutions in the Philippines found that credit analysis and collection policies represent core operational mechanisms, although the adoption of digital tools has begun to shape risk handling efficiency (Campos, 2024). This research highlights that cooperative and community lending environments require tailored risk frameworks that account for member characteristics and local economic conditions, underlining the importance of contextualized practice portfolios.

2.3. Empirical Evidence on Perceived Challenges and Risk Practices

While numerous studies document the positive effects of credit risk management on performance, fewer investigate how clients perceive the challenges associated with these practices. Evidence from savings and credit cooperatives in East Africa suggests that rigorous credit monitoring and control mechanisms can reduce operational friction when communicated effectively to members, though initial appraisal requirements may be perceived as demanding by clients with limited financial experience (Etenyi et al., 2024).

Further empirical work on SACCOs in Kenya and Uganda documents the influence of credit risk practices on financial

indicators, family liquidity, and institutional resilience, implying that well-structured risk frameworks correlate with improved member trust and fewer complaints related to loan processing and repayment procedures (Baariu and Njoka, 2023; Mugambi et al., 2024). These studies help explain why strong risk systems might be associated with low perceived operational challenges, especially when members understand the rationale behind procedures or when risk practices align with cooperative values of transparency and mutual benefit.

2.4. Theoretical Perspectives on Risk, Perception, and Institutional Legitimacy

Institutional theory suggests that adoption of formal procedures enhances organizational legitimacy among stakeholders, particularly when practices are perceived as fair and consistent (Jakobsen, 2015). Although Scott's text is foundational and older than 5 years, its application in recent cooperative finance research underlines how formalization of risk practices can shape perceptions and compliance behavior among members. In the context of cooperative finance, stakeholder theory reinforces this view by positioning clients as key participants whose perceptions influence institutional legitimacy and long-term viability. When risk management systems align with client expectations for example, by minimizing uncertainty and providing clear guidelines client challenges tend to diminish, supporting stronger institutional reputation and member retention.

2.5. Synthesis and Research Gap

Overall, the literature supports the notion that credit risk management practices contribute positively to institutional outcomes and client satisfaction. However, there remains a gap in empirical research on how clients perceive challenges associated with these practices, particularly in the context of credit cooperatives. Most empirical work focuses on performance metrics or technical efficiency, without deep exploration of client experience or relational outcomes tied to specific risk components. Your study addresses this gap by linking perceived implementation levels, client-reported challenges, and analytical relationships between practice dimensions and client perceptions. This thematic review establishes a clear theoretical and empirical foundation, positioning your work as an advance in understanding the client experience of credit risk management within cooperatives.

3. THEORETICAL FRAMEWORK

This study is anchored on established theories in credit risk management and organizational behavior that explain how institutional practices shape client perceptions and experiences. The theoretical framework integrates information asymmetry theory, institutional theory, and stakeholder theory to explain the relationships between credit risk management practices and perceived challenges among credit cooperative clients.

Information asymmetry theory cited in the study of Zhang (2024) explains situations in which one party possesses more or better information than another, often leading to inefficiencies in financial transactions. In credit markets, lenders typically face uncertainty regarding borrowers' repayment capacity, intentions, and risk

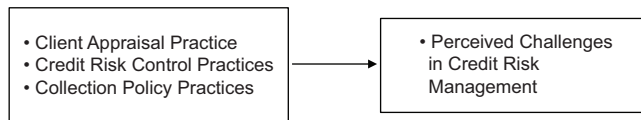
profiles. To address this imbalance, financial institutions adopt appraisal mechanisms such as background verification, income assessment, and collateral evaluation. These mechanisms aim to reduce adverse selection and moral hazard by improving the quality of information available to lenders. Within the context of this study, client appraisal practices represent institutional responses to information asymmetry. While these practices strengthen credit screening and reduce default risk, they also require clients to comply with documentation and verification procedures. As a result, appraisal practices may increase perceived challenges from the client perspective, even when they serve legitimate risk management objectives. Information asymmetry theory therefore provides a basis for explaining why appraisal practices may be associated with higher perceived difficulty.

Institutional theory mentioned in the study of Cao et al. (2022) emphasizes that organizations adopt formal structures and procedures to gain legitimacy, stability, and acceptance within their operating environment. These structures become routinized over time and shape how stakeholders perceive organizational actions. In financial institutions, standardized policies and procedures signal professionalism, reliability, and accountability. In this study, credit risk control and collection policy practices reflect institutionalized mechanisms designed to ensure consistency and predictability in loan monitoring and repayment. When clients understand and anticipate these procedures, they are less likely to perceive them as problematic. Institutional theory therefore explains why well-established control and collection practices may reduce perceived challenges by minimizing uncertainty and reinforcing procedural clarity.

Stakeholder theory explained in the study of Mahajan et al. (2023) posits that organizations must balance the interests and expectations of all stakeholders to achieve long-term sustainability. In credit cooperatives, clients serve both as borrowers and members, making their perceptions central to institutional legitimacy and performance. Risk management practices that align with client expectations and capacities are more likely to be perceived as fair and acceptable. From this perspective, perceived challenges arise when institutional practices impose demands that exceed clients' ability to comply or understand. Practices that support transparency, communication, and consistency tend to reduce perceived difficulty. Stakeholder theory thus provides a framework for understanding how credit risk management practices influence client experiences and perceptions.

Guided by these theories, the study conceptualizes credit risk management practices specifically client appraisal, credit risk control, and collection policy as independent variables that influence perceived challenges among credit cooperative clients. The framework assumes that appraisal practices primarily affect client perceptions at the entry stage of the credit process, while control and collection practices influence perceptions during loan monitoring and repayment. The integration of information asymmetry, institutional, and stakeholder perspectives allows the study to explain both the direction and variation in the relationships observed between practices and challenges. This theoretical framework supports the descriptive, correlational, and predictive

Figure 1: Conceptual framework illustrating the relationship between credit risk management practices and perceived challenges among credit cooperative clients



analyses conducted in the study and provides a coherent basis for interpreting the empirical findings.

4. CONCEPTUAL FRAMEWORK

The conceptual framework of the study illustrates the relationship between credit risk management practices and perceived challenges among clients of credit cooperatives (Figure 1). Guided by information asymmetry theory, institutional theory, and stakeholder theory, the framework explains how institutional credit practices influence client experiences across different stages of the credit process. In this study, credit risk management practices serve as the independent variables and consist of three dimensions: client appraisal practices, credit risk control practices, and collection policy practices. These practices represent the key mechanisms through which cooperatives manage borrower risk, monitor loan performance, and ensure repayment.

The dependent variable is perceived challenges in credit risk management, which reflects clients' assessment of the difficulties they experience in relation to appraisal, monitoring, and collection procedures. The framework assumes that appraisal practices affect client perceptions primarily at the entry stage of the credit process, while control and collection practices influence perceptions during loan implementation and repayment. The framework further assumes that each dimension of credit risk management may influence perceived challenges differently. Appraisal practices may increase perceived challenges due to documentation and verification requirements, while effective control and collection practices may reduce perceived challenges by providing structure, clarity, and predictability. This conceptualization supports the descriptive, correlational, and predictive analyses employed in the study.

5. METHODOLOGY

5.1. Research Design

This study employed a descriptive–correlational research design to examine credit risk management practices and the challenges perceived by clients of credit cooperatives in Surigao del Sur. The descriptive component enabled the study to determine the extent to which credit risk management practices were implemented in terms of client appraisal, credit risk control, and collection policy, as well as to assess the level of challenges experienced by clients in relation to these practices. This approach was appropriate because the study aimed to document existing conditions without manipulating variables. The correlational component was used to examine the relationships between credit risk management practices and perceived challenges and to determine the extent

to which specific practices predict client-reported difficulties. This design allowed the study to analyze associations and predictive patterns based on naturally occurring data gathered from cooperative clients. The use of a descriptive–correlational design was therefore suitable for achieving the objectives of the study, as it provided both an accurate description of current practices and an empirical basis for analyzing relationships among key variables.

5.2. Study Setting

The study was conducted in the province of Surigao del Sur, Philippines, focusing on selected credit cooperatives operating in the area. Surigao del Sur provides an appropriate setting for examining credit risk management practices because credit cooperatives play an important role in providing financial services to local communities, particularly for individuals with limited access to formal banking institutions. These cooperatives serve diverse clients engaged in small businesses, employment-based income activities, and household financial management. The study covered four credit cooperatives located in Bislig City, San Agustin, Tandag City, and Cantilan. These cooperatives were selected because they are actively engaged in credit operations and maintain a substantial client base, making them suitable for assessing credit risk management practices from the client perspective. Focusing on multiple cooperatives allowed the study to capture variation in operational contexts while maintaining comparability in institutional purpose and service delivery. This setting enabled a realistic examination of how credit risk management practices are implemented and experienced by clients within cooperative financial institutions at the provincial level.

5.3. Population of the Study

The population of the study consisted of 2,495 registered clients of four selected credit cooperatives in Surigao del Sur. These cooperatives included Bislig Community and Government Employees Multipurpose Cooperative, San Agustin Municipal Employees and Community Cooperative, King Multipurpose Cooperative in Tandag City, and Socorro Empowered People's Cooperative in Cantilan. The study focused exclusively on clients who had existing credit transactions with their respective cooperatives. Clients were considered appropriate respondents because they directly experience credit risk management practices related to loan appraisal, monitoring, and collection. Limiting the population to clients ensured that the findings accurately reflected client perceptions of credit risk management practices and associated challenges.

5.4. Sample Size and Sampling Technique

The study used a sample of 339 clients drawn from a total population of 2,495 credit cooperative clients in Surigao del Sur. The sample size was determined to ensure adequate representation of clients across the participating cooperatives and to support the statistical analyses employed in the study. The respondents were selected using proportionate stratified sampling, with each cooperative treated as a stratum. Sample allocation was based on the proportion of clients in each cooperative to ensure balanced representation. This sampling technique minimized sampling bias

and enhanced the generalizability of the findings by reflecting the distribution of clients across the four credit cooperatives.

5.5. Research Instrument

The study used a structured survey questionnaire to collect data from credit cooperative clients. The instrument consisted of items measuring credit risk management practices in terms of client appraisal, credit risk control, and collection policy, as well as items assessing perceived challenges related to these practices. The questionnaire captured client perceptions based on their actual credit experiences with the cooperatives. All items used a Likert-type scale to ensure consistency and ease of response. Subject-matter experts reviewed the instrument to establish content validity and confirm the clarity and relevance of the items. Reliability analysis showed good internal consistency, with a Cronbach's alpha coefficient of 0.806, indicating that the instrument was reliable and suitable for statistical analysis.

5.6. Data Collection Procedure and Ethical Considerations

The researchers obtained permission from the management of the selected credit cooperatives before data collection. The researchers informed all respondents about the purpose of the study and secured their informed consent prior to participation. Participation was voluntary, and respondents could withdraw at any time without consequence. The researchers administered the questionnaires directly to the selected clients and allowed sufficient time for completion. The study maintained confidentiality and anonymity by excluding personally identifiable information from the instrument and limiting data access to the research team. The researchers handled all data in accordance with ethical standards for social science research.

5.7. Data Analysis

The researchers analyzed the data using appropriate statistical techniques aligned with the objectives of the study. Descriptive statistics, including means, summarized clients' perceptions of credit risk management practices and perceived challenges. These analyses provided the basis for describing the extent of practice implementation and the level of challenges experienced by clients. The researchers used Spearman's rho correlation to examine the relationships between credit risk management practices and perceived challenges, given the ordinal nature of the data. The researchers applied multiple regression analysis to determine the extent to which credit risk management practices predict perceived challenges. The researchers conducted all analyses using statistical software and interpreted the results at a 0.05 level of significance.

6. RESULTS AND DISCUSSION

This section presents the empirical findings of the study based on the responses of credit cooperative clients in Surigao del Sur. The results first describe the extent of credit risk management practices in terms of client appraisal, credit risk control, and collection policy, followed by the challenges encountered in implementing these practices. Descriptive statistics, including weighted means and corresponding verbal interpretations, summarize client perceptions and provide a basis for subsequent relational and predictive analyses.

As shown in Table 1, credit cooperatives in Surigao del Sur demonstrate a high level of implementation of credit risk management practices across all assessed dimensions. Client appraisal practices recorded the highest composite mean

Table 1: Credit risk management practices of credit cooperatives in terms of client appraisal, credit risk control, collection policy

Indicators	Mean	Verbal interpretation
Client appraisal		
Credit cooperative imposed verification of clients' personal information such as residential address, employment history and identity documents	3.81	Strongly Agree
The credit cooperative evaluates the purpose of the loan	3.71	Strongly Agree
Credit cooperative appraises the value of the collateral provided by clients	3.66	Strongly Agree
The credit cooperative uses a checklist in ensuring that all required documents are collected	3.67	Strongly Agree
The credit cooperative looks after the customers' repayment capacity.	3.67	Strongly Agree
Mean	3.70	Strongly Agree
Credit risk control		
Credit cooperative established and imposed a loan size limit	3.70	Strongly Agree
Credit cooperative offers flexible repayment periods that could improve loan repayment	3.67	Strongly Agree
Credit cooperative imposes penalties for late payments to enhance customers' commitment to loan repayment	3.60	Strongly Agree
The credit cooperative uses customer credit application forms to improve monitoring and credit management	3.63	Strongly Agree
There is a credit committee involvement in making decisions regarding loans in response to reducing default/credit risk.	3.64	Strongly Agree
Mean	3.65	Strongly Agree
Collection policy		
The credit cooperative keeps detailed and updated loan records per client	3.64	Strongly Agree
The established collection policies provide a structured payment for delinquent loans for them to attain loan recovery	3.58	Strongly Agree
Credit cooperative uses reminder letters as a mechanism to clients with missed amortization	3.59	Strongly Agree
The credit cooperative imposes charges for delinquent accounts such as penalty and additional fees to encourage client timely payment	3.56	Strongly Agree
The credit cooperative provides remedial measures for delinquent accounts to strengthen the loan recovery by imposing condonation of charges and fees.	3.63	Strongly Agree
Mean	3.60	Strongly Agree

($M = 3.70$), indicating strong agreement among clients that cooperatives consistently verify personal information, evaluate loan purpose, appraise collateral value, and assess repayment capacity. Verification of clients' personal information emerged as the most strongly endorsed indicator ($M = 3.81$), reflecting the emphasis placed on identity validation and background checking during the appraisal process.

Credit risk control practices also showed strong implementation ($M = 3.65$), as presented in Table 1. Clients strongly agreed that cooperatives impose loan size limits, offer flexible repayment terms, and involve credit committees in loan decision-making. These results indicate that cooperatives actively apply internal control mechanisms to manage exposure to default risk. Collection policy practices likewise demonstrated a high level of implementation ($M = 3.60$), with clients recognizing the maintenance of updated loan records, structured repayment arrangements for delinquent accounts, and the provision of remedial measures to support loan recovery.

The perceived challenges in credit risk management remained low across all dimensions, as summarized in Table 2. Client appraisal challenges registered a composite mean of 1.92, indicating general disagreement with statements describing weaknesses in appraisal procedures. Clients largely disagreed that appraisal processes were poorly communicated, overly complex, or lacking established credit criteria.

Challenges related to credit risk control were even less pronounced, with a composite mean of 1.75 reported in Table 2. Clients strongly disagreed with statements indicating the absence of monitoring mechanisms, collateral requirements, or background

investigation policies. Collection policy challenges recorded the lowest overall perception of difficulty ($M = 1.74$), as shown in Table 2, with clients strongly disagreeing that cooperatives lacked transparency, timely notices, or verification mechanisms in their collection activities. Overall, the results indicate that clients do not perceive substantial operational challenges in cooperative credit risk management, which aligns with the consistently high levels of practice implementation.

The correlation analysis identified differentiated relationships between credit risk management practices and perceived challenges among credit cooperative clients. As shown in Table 3, client appraisal practices exhibited a statistically significant and moderate positive association with appraisal-related challenges ($\rho = 0.648$, $P < 0.001$), indicating that as appraisal procedures became more stringent or visible, clients reported higher levels of perceived difficulty. This finding suggests that enhanced screening and documentation requirements may heighten client awareness of procedural demands.

Conversely, credit risk control practices demonstrated a significant but weak inverse relationship with corresponding challenges ($\rho = -0.355$, $P < 0.001$). A similar pattern emerged for collection policy practices, which also showed a significant negative association with collection-related challenges ($\rho = -0.380$, $P < 0.001$). These results indicate that stronger implementation of monitoring mechanisms, repayment structures, and collection protocols aligns with reduced client-reported challenges. Overall, the findings underscore that credit risk management components operate differently in shaping client perceptions, with control and collection mechanisms appearing to mitigate difficulties, while appraisal processes may intensify them.

Table 2: Challenges in credit risk management practices in terms of client appraisal, credit risk control, collection policy

Indicators	Mean	Verbal interpretation
Client appraisal		
The credit cooperative personnel do not have strong communication skills with clients in the client appraisal process	1.94	Disagree
The client appraisal of a credit cooperative is complex that results in a lack of awareness on the credit policies	1.96	Disagree
The orientation plan of credit cooperative was not strictly followed by the account officer	1.92	Disagree
The credit cooperative does not have established credit rating criteria for client appraisal	1.91	Disagree
Clients provide insufficient documents/lacking requirements necessary for approval of loan application.	1.88	Disagree
Mean	1.92	Disagree
Credit risk control		
There is no mechanism to monitor clients with missed payment accounts and delinquent accounts.	1.78	Disagree
There is no mechanism/policy to require clients of collateral requirements.	1.76	Disagree
The Credit Cooperative is in lack of personnel competencies in assessing credit worthiness of clients.	1.73	Strongly Disagree
There is no established mechanism to determine the repayment matters of clients.	1.74	Strongly Disagree
There's no established policies on the conduct of credit and background investigation.	1.74	Strongly Disagree
Mean	1.75	Strongly Disagree
Collection policy		
The credit cooperative does not have an efficient staff to effectively manage collections and recover debts in a timely manner.	1.78	Disagree
The credit cooperative does not observe transparency of records of its clients specifically the credit records.	1.75	Strongly Disagree
The notice for clients with delayed payments is not timely delivered.	1.74	Strongly Disagree
There is no verification mechanism of client information.	1.72	Strongly Disagree
The credit cooperative does not observe the implementation of Fair Debt Collection Practices Act towards their collection practices.	1.74	Strongly Disagree
Mean	1.74	Strongly Disagree

Table 3: Correlation analysis

Variables	Spearman rho (ρ)	Magnitude	Significance (1-tailed)	Interpretation
Client appraisal practices – Client appraisal challenges	0.648**	Moderate	<0.001	Significant
Credit risk control practices – Credit risk control challenges	-0.355**	Weak	<0.001	Significant
Collection policy practices – Collection policy challenges	-0.380**	Weak	<0.001	Significant

Interpretation of magnitude: 0.00-0.10=Negligible; 0.10-0.39=Weak; 0.40-0.69=Moderate; 0.70-0.89=Strong; 0.90-1.00=Very strong. $P < 0.001$ indicates statistical significance. Spearman's rho correlation was applied due to the ordinal nature of Likert-scale data

Table 4: Multiple regression analysis predicting credit risk management challenges

Predictor variables	B	SE	β	t	Significance
Client appraisal practices	-0.240	0.111	-0.146	-2.17	0.031
Credit risk control practices	-0.092	0.104	-0.060	-0.89	0.376
Collection policy practices	0.054	0.099	0.036	0.54	0.587
Constant	3.154	0.306	—	10.32	<0.001

Model summary: $R^2=0.037$, Adjusted $R^2=0.028$, $F(3, 335)=4.25$, $P=0.006$. The dependent variable is overall credit risk management challenges. Regression coefficients represent predictive associations and do not imply causation

The multiple regression analysis examined the extent to which credit risk management practices predict perceived challenges among credit cooperative clients. As presented in Table 4, the overall model reached statistical significance, indicating that the combined set of practices meaningfully explains variation in perceived challenges, although the explanatory power of the model remained modest ($R^2 = 0.037$, $F(3, 335) = 4.25$, $P = 0.006$).

Among the predictors, client appraisal practices emerged as the only significant contributor to the model ($\beta = -0.146$, $P = 0.031$). This result indicates that appraisal-related mechanisms independently predict client-reported challenges when controlling for credit risk control and collection policy practices. In contrast, credit risk control practices ($\beta = -0.060$, $P = 0.376$) and collection policy practices ($\beta = 0.036$, $P = 0.587$) did not demonstrate significant predictive effects in the presence of other variables. These findings suggest that appraisal procedures play a more prominent role in shaping client perceptions of difficulty than downstream control or collection mechanisms.

The findings reveal a coherent pattern in which credit cooperatives demonstrate high levels of credit risk management implementation alongside generally low levels of client-perceived challenges. Clients strongly recognized structured appraisal, monitoring, and collection mechanisms, indicating that risk management practices are operationally embedded in cooperative lending systems. This pattern aligns with core credit risk management theory, which emphasizes systematic borrower evaluation, ongoing monitoring, and structured recovery procedures to safeguard institutional sustainability (Kesanta et al., 2025; Nshabire et al., 2025; Tamay Cieza, 2025). The high composite means across appraisal, control, and collection dimensions suggest that cooperatives have translated formal risk frameworks into consistent operational practice.

Despite the rigor of these practices, clients reported minimal operational difficulty. This finding supports institutional theory,

which posits that routinized and standardized procedures reduce uncertainty and enhance stakeholder acceptance (Jakobsen, 2015; Taylor and Sirmon, 2023). When credit processes are predictable and consistently applied, clients are less likely to perceive them as burdensome. Empirical evidence from cooperative and microfinance contexts similarly shows that transparent and structured risk systems can coexist with positive client perceptions when procedures are clearly communicated and aligned with member expectations (Aranez et al., 2025; Etenyi et al., 2024). The results therefore demonstrate that structured risk governance does not inherently generate client friction.

However, relational and predictive analyses reveal important nuance. Client appraisal practices showed a moderate positive association with perceived challenges, while credit risk control and collection policy practices exhibited negative associations. These differentiated effects indicate that risk components influence client experience in distinct ways. Appraisal procedures, which concentrate documentation, verification, and screening at the entry stage of the credit cycle, impose visible administrative demands. Although these mechanisms reduce information asymmetry and protect portfolio quality, they may heighten perceptions of difficulty because clients experience them directly and intensively (Campos, 2024; Kesanta et al., 2025).

In contrast, credit risk control and collection practices appear to mitigate perceived challenges. Monitoring systems, structured repayment schedules, and clear follow-up mechanisms enhance predictability and reduce ambiguity, thereby lowering perceived operational strain (Etenyi et al., 2024). Once loans are approved, downstream processes become normalized and less salient as sources of difficulty. The regression results reinforce this distinction, identifying appraisal practices as the only significant predictor of perceived challenges, while control and collection mechanisms did not independently predict difficulty when considered simultaneously. This finding highlights the perceptual weight of front-end screening relative to post-approval management.

Although the model's explanatory power was modest, such outcomes are typical in perception-based research where subjective experience reflects both institutional practice and individual-level factors (Nshabire et al., 2025). Rather than weakening the findings, the results emphasize that credit risk management must be evaluated not only in terms of technical soundness but also in terms of experiential impact. The study therefore advances cooperative finance scholarship by demonstrating that risk governance components operate asymmetrically in shaping client perceptions across stages of the credit life cycle.

7. CONCLUSIONS AND PRACTICAL IMPLICATION

This study examined credit risk management practices and perceived challenges among clients of credit cooperatives in Surigao del Sur and identified a consistent pattern of strong institutional practice coupled with generally low client-reported difficulty. Clients perceived high levels of implementation in client appraisal, credit risk control, and collection policy practices, while reporting minimal challenges across these dimensions. Relational and predictive analyses further showed that credit risk management components do not influence client perceptions uniformly. Client appraisal practices exhibited a positive association with perceived challenges and emerged as the only significant predictor of difficulty, whereas credit risk control and collection policy practices were associated with reduced perceived challenges. These findings indicate that credit cooperatives have largely institutionalized effective risk management systems, but that the front-end appraisal stage remains the most perceptually demanding phase of the credit process for clients.

The study contributes to cooperative finance literature by emphasizing the need to distinguish between the technical effectiveness of credit risk management and its experiential impact on clients. The findings suggest that cooperatives can sustain strong portfolio protection while improving client experience by refining appraisal processes through clearer communication, streamlined documentation, and targeted client support, without compromising risk standards. Nevertheless, the study has limitations. It relied on self-reported client perceptions from a single provincial context, which may limit generalizability, and employed a cross-sectional design that does not capture changes in perceptions over time. Future research may address these limitations by adopting longitudinal designs, conducting comparative studies across regions or cooperative types, and integrating qualitative methods to deepen understanding of client experiences. Further studies may also examine moderating factors such as financial literacy, loan characteristics, or digital credit systems to advance knowledge on client-centered credit risk management in cooperative finance.

The findings carry clear managerial and policy implications for credit cooperatives. First, the high implementation scores across all risk dimensions indicate that structured credit systems should be maintained and institutionalized. Strong appraisal, monitoring, and collection frameworks remain essential for portfolio protection and financial sustainability (Kesanta et al., 2025; Zhang, 2024). The consistently low perceived challenges further suggest that structured systems, when transparent, do not undermine client experience. Second, the differentiated effects identified in the analysis point to the strategic importance of refining appraisal processes. Since appraisal practices emerged as both positively associated with challenges and the sole significant predictor of perceived difficulty, cooperatives should focus on improving process clarity rather than weakening screening standards. Managers can reduce perceived burden by streamlining documentation flow, simplifying procedural language, enhancing borrower orientation, and providing clearer guidance during application stages. These refinements preserve risk rigor while

improving client experience. Third, the inverse relationships involving credit risk control and collection policies indicate that post-approval mechanisms function as stabilizing processes. Cooperatives should continue investing in structured monitoring systems, consistent follow-up procedures, and transparent repayment frameworks. Capacity-building initiatives for credit committees and collection personnel may further reinforce institutional legitimacy and member trust. Policy frameworks that encourage standardized appraisal protocols, client education, and transparent communication can strengthen cooperative resilience without compromising inclusivity. Overall, the study underscores the importance of differentiated risk governance. Credit cooperatives should maintain rigorous appraisal standards while redesigning process delivery to reduce unnecessary perceptual strain. By aligning technical effectiveness with client-centered implementation, cooperatives can enhance institutional legitimacy, sustain portfolio quality, and reinforce their developmental role in local financial ecosystems.

8. ACKNOWLEDGMENTS

The author gratefully acknowledges the Department of Trade and Industry–Bislig Field Office for their assistance during data collection and extends appreciation to the participating MSME owners and managers for their valuable responses. During the preparation of this manuscript, the author used Grammarly and ChatGPT (GPT-5, OpenAI, 2025) to assist with editing and language refinement. The author reviewed and revised all generated content and takes full responsibility for the final version of the manuscript.

9. INSTITUTIONAL REVIEW BOARD STATEMENT

The North Eastern Mindanao State University Ethics Committee granted approval for this research, which adhered to all ethical standards and protocols established by the committee. Prior to participation, all respondents provided written informed consent. Participants voluntarily supplied the research data and consented to its use in this study. Involvement was entirely voluntary, and all responses were gathered with anonymity protection.

REFERENCES

- Aranez, A., Tagubar, M., Trabajo, R.M. (2025), Credit risk management and practices of adopted communities of the university of Bohol. *University of Bohol Multidisciplinary Research Journal*, 13(1), 35-57.
- Baariu, J.G., Njoka, C. (2023), Relationship between lending requirements and loan performance of deposit taking savings and credit cooperative societies in Kenya. *Journal of Finance and Accounting*, 3(4), 1-10.
- Bamidele, M.O., Urefe, O., Mokogwu, C., Ewim, S.E. (2024), Strategic approaches to enhancing credit risk management in microfinance institutions. *International Journal of Frontline Research in Multidisciplinary Studies*, 4(1), 53-62.
- Campos, R.B. (2024), The impact of digitalization on credit risk management in microfinance institutions in Nueva Ecija, Philippines. *Indian Journal of Information Sources and Services*, 14(3), 145-156.

- Cao, Z., Xiong, R., Jia, H. (2022), Has institutional theory lost its way? From the perspectives of co-citation and regression analyses. *Academy of Management Proceedings*, 2022(1), 16745.
- Chen, C. (2024), Introduction to credit risk and capital management frameworks. In: Chen, C., editor. *Practical Credit Risk and Capital Modeling, and Validation*. Switzerland: Springer Nature. p1-44.
- Daniel, A., Boakye, D. (2025), Empirical analysis of debt recovery strategy effectiveness and non-performing loan mitigation in Ghanaian microfinance institutions: Evidence from the Ashanti region. *International Journal of Accounting Management Economics and Social Sciences (IJAMESC)*, 3(4), 1105-1115.
- Etenyi, P.H., Nelima, M., Maingi, M. (2024), Effect of credit risk management techniques on financial performance of deposit taking SACCOs in Kenya. *African Journal of Empirical Research*, 5(4), 317-331.
- Jakobsen, M. (2015), W. Richard Scott, institutions and organizations: Ideas, interests, and identities. *The Copenhagen Journal of Asian Studies*, 32(2), 136-139.
- Kesanta, M.N., Makuya, V., Makona, A. (2025), Risk management practices and financial sustainability: Evidence from savings and credit cooperative societies in Tanzania. *Cogent Business Management*, 12(1), 2563034.
- Mahajan, R., Lim, W.M., Sareen, M., Kumar, S., Panwar, R. (2023), Stakeholder theory. *Journal of Business Research*, 166, 114104.
- Moniruzzaman, M. (2022), Risk of regulatory failure of “risk-based regulation” while using enterprise risk management as a meta-regulatory toolkit. *Asian Journal of Economics and Banking*, 6(1), 103-121.
- Mugambi, J., Kariuki, P., Matanda, J. (2024), Credit risk management practices and asset quality of deposit taking savings and credit cooperative societies in Kenya. *Asian Journal of Economics Business and Accounting*, 24(11), 240-257.
- Mwakujonga, J., Komba, C. (2024), Influence of credit risk management practices on loan performance: A case of selected microfinance institutions in Tanzania. *Journal of Policy and Development Studies*, 15(2), 26-35.
- Nshabire, J., Nyambane, D., Manyange, M., Sewanyina, M. (2025), Enhancing loan performance through effective credit risk management: Evidence from commercial banks in Uganda. *Asian Journal of Economics Business and Accounting*, 25(4), 239-248.
- Obondy, S., Aduda, J., Okiro, K., Mutunga, O. (2025), Credit risk management, efficiency and financial performance: Evidence from deposit-taking savings and credit cooperative societies in Kenya. *Research Beacon*, 19(6), 65-85.
- Okwara, K., Dennis, B., Albert, O. (2025), Credit risk management practices and financial sustainability of development finance institutions in Kenya. *Journal of Business and Social Review in Emerging Economies*, 11(3), 3497.
- Tamay Cieza, V. (2025), Determinantes de la morosidad crediticia en cooperativas financieras: Análisis de prácticas de gestión del riesgo. *Impulso, Revista de Administración*, 5(11), 275-286.
- Taylor, S., Sirmon, D.G. (2023), Certification emergence and legitimation: An institutional agent and institutional work perspective. *Academy of Management Proceedings*, 2023(1), 18975.
- Teneng, H.N., Kehdinga, E.N. (2023), Credit management as a predictor to the sustainability of microfinance institutions: A portfolio quality analysis. *Journal of Academic Finance*, 14(2), 99-127.
- Wang, B., Liu, G. (2024), Recent development in credit risk measurement and credit risk modelling with respect to different types of borrowers. *Financial Engineering and Risk Management*, 7(2), 070207.
- Wang, Y. (2024), Possible challenges and recommendations for risk managers in financial institutions. *Academic Journal of Science and Technology*, 10(3), 192-194.
- Yuliani. (2024), Risk management strategies in financial institutions. *Management Studies and Business Journal*, 1(1), 154-163.
- Zedda, S., Modina, M., Gallucci, C. (2024), Cooperative credit banks and sustainability: Towards a social credit scoring. *Research in International Business and Finance*, 68, 102186.
- Zhang, J. (2024), A literature review on the theory of asymmetric information. *Advances in Economics Management and Political Sciences*, 124(1), 183-189.