

RESEARCH

The Paradox of Social Capital in Credit Unions: A Case Study of Credit Union Bankruptcy from a Social Entrepreneurship Perspective

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ABSTRACT

PURPOSE: This study examines the bankruptcy of MCU, a large credit union in West Java, after 30 years of an excellent reputation. It explores how the mismanagement of trust and leadership contributed to institutional collapse from a social entrepreneurship perspective.

METHODOLOGY: The research employs content analysis of institutional documents (2022-2023) and qualitative in-depth interviews with key stakeholders conducted in 2024.

FINDINGS: The findings reveal that trust, as a form of social capital, was significantly eroded. Strong networks and kinship ties created opportunities for conflicts of interest and abuse of power, ultimately leading to bankruptcy and declining member trust.

ORIGINALITY/VALUE OF THE PAPER: This study highlights the paradoxical role of social capital as both an asset and a liability in credit union governance.

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RESEARCH LIMITATIONS: Future research may expand to other dimensions of social entrepreneurship using different methodologies.

KEYWORDS: *Social Capital; Credit Unions; Bankruptcy; Trust; Social Entrepreneurship.*

INTRODUCTION

Building financial services for marginalised groups in developing countries has gained increasing attention over the past two decades, with the aim of reducing poverty and inequality. Credit unions (CUs) are local organisations owned and governed by their members (Voigt and von der Oelsnitz, 2024; Ibikoule et al., 2024). As member-based institutions, CUs enable participation in decision-making and governance processes. They operate on a non-profit basis, providing financial services intended to strengthen and empower members and enhance their prosperity.

The performance of CUs can be observed through annual financial reports, managerial capability, marketing activities, and other business operations. In particular, the efficient management of savings and loan funds is central to achieving their objectives, as both must be carefully administered to improve members' welfare (Ferraro et al., 2024; Garcia and Gonzaga, 2024; Gomez-Biscarri et al., 2021).

Previous studies highlight the importance of social capital in CU sustainability. Asrori and Octaviani (2025) found that trust, networks, and shared values were fundamental to the success of the “KK” Credit Union in Sintang District, Kalimantan. Transparent financial management was shown to reduce socio-economic disparities within the local community.

However, some co-operatives struggle to develop and ultimately face closure or bankruptcy (van Rijn, 2024; Beccalli et al., 2023; Meira and Ramos, 2023; Simamora et al., 2022; Mashange et al., 2022; Wang et al., 2022; Cuong et al., 2020). Research indicates that both credit unions and banks are more likely to fail when characterised by low capital, high delinquent loans, low returns on assets (ROA), small asset size, high non-interest expenses, rapid asset growth, and concentrated asset portfolios (Dopico and Wilcox, 2019; Surmawan, 2022).

Dopico and Wilcox (2019) further identify eight key factors associated with credit union bankruptcy between 1987 and 2018: insufficient capital, high delinquency rates, low ROA, small asset size, high non-interest expenses per asset, rapid asset growth, concentrated asset portfolios, and high state unemployment rates (see Figure 1).

FACTORS CONTRIBUTING TO FAILURES OF CREDIT UNIONS AND BANKS, EXTENDED MODEL, 1987–2018

	Credit unions		Banks	
	(1)	(2)	(3)	(4)
1. Constant	-5.32*** (-11.68)	-3.35*** (-7.07)	-2.09*** (-3.67)	-1.13 (-1.52)
2. Capital	-0.170*** (-24.32)	-0.161*** (-23.42)	-0.504*** (-37.33)	0.485*** (-36.24)
3. Delinquent loans	0.168*** (27.32)	0.156*** (24.47)	0.211*** (22.72)	0.197*** (20.44)
4. ROA	-0.044*** (-4.20)	-0.053*** (-5.10)	-0.091*** (-7.45)	-0.083*** (-6.72)
5. State unemployment rate	0.064*** (2.65)	0.070*** (2.91)	0.194*** (8.54)	0.190*** (7.94)
6. Assets	-0.097*** (-4.63)	-0.205*** (-7.89)	-0.157*** (-5.53)	-0.129*** (-4.22)
7. Noninterest expenses	0.161*** (11.64)	0.124*** (8.52)	0.099*** (5.50)	0.061*** (3.39)
8. Growth	-0.037*** (-13.38)	-0.036*** (-13.08)	-0.004 (-1.40)	-0.008** (-2.57)
9. Growth (squared)	0.001*** (8.88)	0.001*** (7.92)	0.0003* (1.87)	0.000 (1.11)
10. Concentration	0.097*** (4.57)		0.275*** (8.40)	
11. Securities		-0.030*** (-5.54)		-0.041*** (-4.86)
12. Securities (squared)		0.0004*** (5.41)		0.0004** (2.56)
13. Consumer loans		-0.013** (-2.24)		-0.008 (-0.80)
14. Consumer loans (squared)		0.0002*** (3.73)		0.000 (1.46)
15. Residential mortgages		0.005 (0.68)		-0.028*** (-3.11)
16. Residential mortgages (squared)		0.000 (0.08)		0.0004** (2.57)
17. Commercial mortgages		0.076*** (3.36)		-0.014* (-1.65)
18. Commercial mortgages (squared)		-0.001** (-2.28)		0.0003*** (3.03)
19. C&I loans		0.025 (0.74)		-0.013 (-1.30)
20. C&I loans (squared)		-0.000 (-0.65)		0.0005*** (3.15)
21. Other loans		0.022** (4.08)		-0.021 (-1.26)
22. Other loans (squared)		-0.0002** (-2.44)		0.000 (1.03)
23. Other assets		0.125*** (9.62)		0.046*** (5.07)
24. Other assets (squared)		-0.001*** (-4.67)		-0.0003** (-2.31)
25. Number of observations		314,098		274,155
26. Number of failures		1,182		1,464
27. Failure rate (%)		0.33		0.46
28. R ²	0.133	0.140	0.350	0.355

Figure 1: Factors Contributing to the Failure of Credit Unions and Banks

Source: Dopico and Wilcox (2019)

Credit unions and banks are more likely to fail when characterised by limited capital, high levels of non-performing loans, low returns on assets (ROA), small asset size, high non-interest expenses per asset, rapid asset growth, and concentrated asset portfolios. However, unlike previous studies that primarily examine these financial indicators, this research seeks to investigate why a large credit union in West Java failed, while also confirming several significant findings identified in earlier research (see Figure 1).

According to data from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia (2021), many co-operatives are inadequately managed, resulting in business closures and bankruptcy. This situation reflects an imbalance between the quantity of co-operatives established and the quality of their governance. Furthermore, many credit unions fail to survive because their establishment and operations do not adhere to co-operative principles (Nhico, 2021).

LITERATURE REVIEW

Credit Union and Social Entrepreneurship

The principle of managing a credit union through local community participation, prioritising empowerment, and returning benefits to members reflects the core characteristics of social entrepreneurship. Credit unions seek to maximise benefits for their members while maintaining a fair socio-economic balance. As long as these principles are consistently implemented, CUs are expected to remain sustainable. Despite growing in size and diversity, credit unions continue to operate as member-owned co-operatives governed by democratically elected boards, where each member has one vote regardless of the size of their deposits (Kumkit et al., 2024; Boadu et al., 2024; Simkhada and Bhattarai, 2023; Dereeper et al., 2020).

Social entrepreneurship (SE) is broadly associated with initiatives that address social needs. It refers to the mobilisation of resources and opportunities to solve social problems such as poverty, marginalisation, and environmental degradation. SE therefore seeks to transform institutions and behaviours that perpetuate these issues. Owing to its capacity to foster social transformation, SE is regarded as a strategy for sustainable development. Research interest in SE has grown significantly in recent decades, reflecting its complexity and diversity. Nevertheless, as a phenomenon that evolves organically within society, not all aspects of SE have been comprehensively examined (Singh and Reji, 2020; Sitaram and Shibashish, 2023)

As a form of social entrepreneurship, credit unions are grounded in principles of co-operation and mutual support aimed at improving members' welfare. In Indonesia, CUs play a strategic role in empowering the informal sector, reducing poverty, and generating employment. Research on credit unions has fluctuated annually, although interest has increased since 2023-2024. A review of publications on financial inclusion identified 2023 as the year with the highest number of related articles, suggesting continued opportunities for further research (Setyaningrum and Carolina, 2024; Alkadi et al., 2024; Cruz and Mariana, 2024; Mantuano, 2024; Alvarez-Gamboa, 2023).

The COVID-19 pandemic posed significant challenges to credit unions. In 2020, mobility restrictions severely disrupted economic activity, affecting both the demand and supply sides of CU operations. As performance declined, concerns regarding potential bankruptcy increased. This situation underscored the importance of prudent financial management and the optimisation of available resources to maintain institutional stability (Crofton et al., 2020; Dewi et al., 2022).

A study by Vasquez et al. (2024) shows that social capital reduces the probability of non-performing loans and minimises credit risk. Trust built between lenders and borrowers lowers the likelihood of default. Close relationships with local communities, as well as bonding and familiarity among members, provide valuable information for identifying potential default risks more efficiently and for safeguarding the sustainability of the credit union (Nitani and Legendre, 2021; Mashange et al., 2022; Bailey et al., 2022).

Similarly, in their study of mortgage loans and credit cards in the United States, Clark et al. (2021) find that social cohesion reduces the cost of default by 12.4%. Furthermore, Li et al. (2022) demonstrate that during crisis periods, such as COVID-19, social contagion in the form of reciprocal behaviour and trust within co-operatives intensifies, thereby discouraging opportunistic or non-compliant behaviour.

Several internal factors have hindered CU development in Indonesia, including poor human resource quality, weak management, limited capital, and inadequate implementation of co-operative principles (Lestari and Kholil, 2018). Data from the Regency Cooperatives and SMEs Service (2020) indicate that of the 319 legally registered CUs, only around 100 regularly held Annual Member Meetings. During the pandemic, this number declined to approximately 25 due to restrictions on public gatherings, which disrupted financial reporting and governance processes (Siregar, 2018; Dewi et al., 2022).

A distinctive feature of credit unions is their familial character, which prioritises trust as a form of social capital. Social capital enhances competitiveness, innovation, and sustainability through collaboration and social networks (OECD, 2021). In the context of credit unions, it facilitates co-ordination and co-operation for mutual benefit.

RESEARCH METHODOLOGY

Qualitative content analysis emerged in response to critiques of quantitative techniques that reduce textual data into numerical form, often resulting in the loss of contextual and composite meaning. Originally perceived as a quantitative method, content analysis has undergone a significant transformation since the second half of the twentieth century, shifting towards a more interpretative approach. This development reflects the need for systematic yet subjective interpretation of textual data through processes such as classification, coding, thematic development, and pattern construction (Graneheim et al., 2017).

This study employs a qualitative content analysis derived from document analysis; this was subsequently expanded through in-depth interviews with individuals involved in the MCU organisation and its stakeholders. Observation and document analysis were conducted between 2022 and 2023, followed by in-depth interviews in May-June 2024. One research assistant is a member of MCU and, with organisational permission, accessed and examined documents from special members' meetings, legal proceedings (stages two and three), peaceful protests related to the extraordinary members' meeting, and hearings with the West Java Regional House of Representatives.

Data were collected through document review, field notes, in-depth interviews, photographs, and video documentation. Relevant information was systematically recorded and analysed to identify patterns, themes, and emerging insights. The stages of the research process are presented in Figure 2.



Figure 2: Research Stages

Source: Constructed by authors

FINDINGS

The Story of MCU

“M” Credit Union Savings and Loans Cooperative (MCU) is a financial services co-operative with four branches in West Java, Indonesia. MCU was established in 1991 out of concern for members of the “M” Church community in West Java Province. Initiated by VJS and RS, MCU began as a simple savings and loan service conducted after Sunday Eucharistic celebrations.

In 2003, MCU expanded its membership beyond the church community to the wider public across several cities in West Java. Its services were broadened to support economic empowerment through savings and loan programmes. At that time, membership exceeded 2,800 individuals.

According to information published on the MCU website, the co-operative, now more than three decades old, received several awards, including Outstanding Cooperative (2014) and Large-Scale Cooperative (2017) from the government. MCU was also recognised as the co-operative with the largest assets for five consecutive years by the West Java Credit Cooperative Centre.

However, in March 2023, MCU began experiencing serious difficulties in meeting members' withdrawal requests. One of the researchers, who is also an MCU member, attempted to withdraw part of her savings in March 2023; the funds were transferred one week later. In September 2023, she applied to withdraw IDR 40 million but received only IDR 2 million in January 2024. Similar

delays were experienced by most members between March 2023 and April 2024.

Financial indicators reveal a significant deterioration in liquidity. Total assets amounted to IDR 273 billion, yet the liquidity ratio declined sharply from 5.29% in December 2021 to 0.77% by 31 December 2022. During the 2023 Annual Member Meetings (held on 23 March and 27 April 2024), members rejected the management and supervisory accountability reports due to a dramatic increase in the non-performing loan (NPL) ratio, from 4.85% at the end of 2022 to 86.33% by the end of 2023. Members requested clarification regarding the number of delinquent borrowers and the value of their collateral. As no transparent explanation was provided, the 2023 Annual Report was formally rejected. In accordance with Regulation No. 19 of 2015 issued by the Indonesian Ministry of Cooperatives and Micro, Small and Medium Enterprises (MSMEs), members established a Verification Team and appointed temporary supervisors and management.

Between 2023 and 2025, one research assistant who is also an MCU member systematically examined the available financial documents. The findings indicate that NPLs amounting to approximately IDR 215 billion (as of 29 April 2024) were largely attributable to five major borrowers, whose total loan value reached approximately IDR 248 billion. However, the collateral recorded in the credit agreements appeared disproportionate and questionable.

Further investigation revealed irregularities. One major borrower could no longer be located, and the listed business premises were merely rented. Another borrower (coded P02) was found to be residing in modest accommodation, inconsistent with the scale of the reported loan. A third borrower (coded P05) voluntarily met with the Verification Team and legal representatives. Both P02 and P05 stated before legal counsel that the funds they had actually received were substantially lower than the amounts recorded in the official loan documents. The organisational structure of MCU is presented in Figure 3.

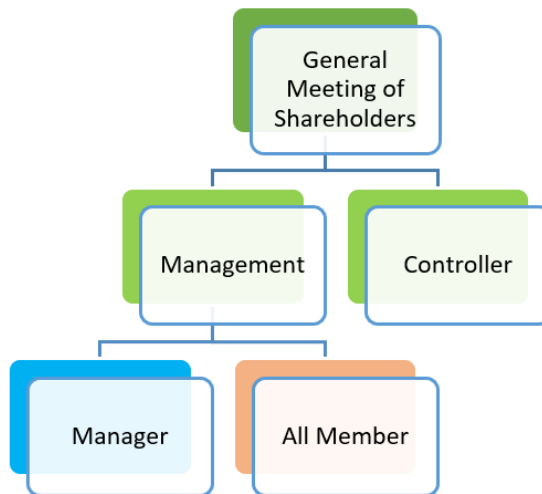


Figure 3: MCU Organisational Structure

Source: Constructed by authors

The team subsequently identified several MCU Management Decrees issued between 2011 and 2020 that granted managers extensive authority to approve and disburse credit. These documents indicate a potential overlap in strategic decision-making functions between the board and managerial staff.

The findings were presented at a Special Members' Meeting on 25 May 2024. During the meeting, members expressed concerns regarding the possible misappropriation of MCU funds. As a result, those present agreed to establish a Crisis Committee to co-ordinate members and prospective members in pursuing legal action.

One member of the research team attended the Special Members' Meeting and later assumed the role of spokesperson for the MCU Crisis Committee. This role involved documenting and communicating the committee's actions to members and the wider public as part of a commitment to transparency.

Document Analysis

The team conducted a review of several organisational documents suspected of contravening Indonesian co-operative law and deviating from established co-operative principles. Prior to the Verification Team's presentation at the Special Members' Meeting, members were unaware of the existence of these documents. Notably, Regulation No. 17/2011 was also unknown to several board members who served during the 2017-2021 period.

The findings of the document analysis, particularly those identified as problematic, are summarised in Table 1.

Table 1: Findings from the Document Analysis

Management's Decision Letter: 017/KOPMEL/XI/2011	Management's Decision Letter: 006/MCU/VIII/2020
<p>Identified Issues:</p> <ol style="list-style-type: none"> 1. A "companion" position was established and appointed as Manager, creating ambiguity in role definition and accountability. 2. The appointed companion was granted authority to determine the amount of credit or financial support disbursed to members, indicating a concentration of decision-making power. 3. Members' deposits were allegedly not allocated for loan repayment purposes but were instead redirected to special or designated deposit accounts. 4. At a certain threshold, members' savings were converted into SSB (Mandatory Savings Shares), raising concerns regarding consent and transparency. 	<p>Identified Issues:</p> <ol style="list-style-type: none"> 1. Managerial Authority Exceeding that of the Executive and Supervisory Boards Several provisions indicate a concentration of authority in the hands of the Manager, potentially undermining the principle of collective governance: <ul style="list-style-type: none"> • <i>Article 43(1)</i>: "The enforcement of the Code of Ethics is carried out by the MCU Manager." • <i>Article 59(3)</i>: "Sanctions are imposed by the MCU Manager or in accordance with Article 43(1)." • <i>Article 64(6)</i>: "Members of the MCU Executive Board and Supervisory Board who receive a Level 3 Warning Sanction are declared to have lost their rights, authority, and functions in their position at MCU." These clauses suggest that the Manager holds disciplinary authority over both the Executive Board and the Supervisory Board, raising concerns regarding checks and balances within the organisational structure. 2. Ambiguity in the Code of Ethics <ul style="list-style-type: none"> • <i>Article 60(2)(b)</i>: "Yawning loudly or sleeping during activities that fall under the functions, authorities, and responsibilities of the MCU Executive and/or Supervisory Board." The inclusion of broadly defined behavioural provisions may create interpretative ambiguity and open space for subjective enforcement. 3. Restrictions on the Supervisory Board's Authority <ul style="list-style-type: none"> • <i>Article 17(1)</i>: "The MCU Supervisory Board Meeting shall be held at least once and no more than twice in the current year." • <i>Article 17(3)</i>: "Every plan to hold a Supervisory Board Meeting must be submitted to the MCU Manager no later than seven (7) days prior to the meeting." These provisions potentially limit the independence of the Supervisory Board and place its operational activities under managerial oversight. 4. Limitations on the Executive Board's Regulatory Authority <ul style="list-style-type: none"> • <i>Article 21(2)</i>: "The draft regulations of the MCU Executive Board shall be determined based on proposals from the MCU Manager." This clause indicates that regulatory initiatives by the Executive Board are contingent upon managerial proposals, suggesting reduced institutional autonomy.

<p>Management's Decision Letter: 017/KOPMEL/XI/2011</p>	
<p>Management's Decision Letter: 006/MCU/VIII/2020</p>	<p>5. Managerial Intervention in the Election Process</p> <ul style="list-style-type: none">• <i>Article 7</i>: "Before the MCU Executive Board and Supervisory Board can carry out their duties in accordance with their functions, authorities, and responsibilities as stipulated in Article 4(2)(h), the MCU Manager is granted the authority to make decisions and/or take actions that, in the Manager's view, are intended to support the leadership transition process at MCU in compliance with applicable regulations within MCU and/or prevailing laws." <p>This provision grants discretionary authority to the Manager during leadership transitions, potentially enabling intervention in the governance process.</p>

Source: Constructed by authors

The research team conducted written interviews with two key stakeholders from the MCU Crisis Committee (RALB, 2024). The interviews were guided by the following questions:

1. Why did a co-operative of MCU's scale experience a decline in its social entrepreneurial orientation?
2. Why did the institutional governance structure of MCU fail to prevent the alleged fraud that began to emerge in early 2022?
3. In light of the financial crisis and internal conflict among members, can the resolutions adopted at the Extraordinary Member Meetings (RALB) restore MCU's institutional stability?
4. If not, what measures should be undertaken to rebuild the trust of members and the wider public in this financial institution?

The interview transcripts are summarised in Table 2.

Table 2: Summary of Interview Transcripts

Questions	Answer by: "SK Group" (Stakeholder 1)	Answer by: "KS Group" (Stakeholder 2)
<p>1. Why has a Credit Union as large as MCU lost its spirit of social entrepreneurship?</p>	<p>Human greed, combined with a weak system of checks and balances, indicates inadequate oversight.</p>	<ul style="list-style-type: none"> • There was a lack of social entrepreneurship spirit from the outset. Its practices resembled those of loan sharks. For example, in many other co-operatives, loan interest rates decline in line with the outstanding principal and generally do not exceed 18% on an effective basis. By contrast, at MCU, the rate once reached 24% flat and may still be around 18%, but it remains calculated on a flat basis. This approach differs from co-operatives that genuinely seek to improve their members' economic well-being.
<p>2. Why did the institutional apparatus or organisational structure of MCU, including its management and advisory boards, fail to prevent alleged misconduct that may have persisted for decades?</p>	<p>Firstly, member education programmes were not implemented effectively. Secondly, government oversight was weak. More broadly, education in Indonesia tends to prioritise intellectual development, while giving less attention to fostering a substantive understanding of citizens' rights and responsibilities. As a result, members may lack the critical awareness necessary to exercise effective oversight within co-operative institutions.</p>	<ul style="list-style-type: none"> • This situation arises because the government primarily provides guidance rather than conducting thorough inspections, unlike the Financial Services Authority (OJK) in the banking sector. In practice, the Office of Cooperatives and MSMEs tends to review reports already audited by Public Accounting Firms, without undertaking independent examinations of financial flows within credit unions. • The lack of transparency, accountability, and fairness in oversight is further compounded by a familial culture that may be exploited by both management and supervisory boards, fostering reluctance to engage in open confrontation (commonly referred to as <i>ewuh-pakewuh</i>). This cultural dynamic can also influence risk-taking behaviour, resulting in insufficient prudence. • Governance issues are aggravated by structural incompatibilities. The requirement that managers must also be members, as mandated by the Central Cooperative Credit Union, may create conflicts of interest. In some cases, both executive and supervisory boards appear to lack adequate competence and integrity. Low member literacy regarding co-operative principles, combined with the attraction of higher savings interest rates compared to banks, further weakens effective oversight. • Conflicts of interest intensify when leadership roles overlap, such as when the chairperson simultaneously holds positions in both the Central Credit Union and MCU. There are also indications of predatory practices, including the misuse of savings-and-loans licences for investment activities and the provision of services to non-members, which contravenes co-operative principles.
<p>3. Given the financial crisis and internal conflicts among members, can the resolutions passed during the Extraordinary General Meeting (EGM) restore MCU's condition?</p>	<p>Absolutely not.</p>	<p>We are neither adequately informed nor inclined to follow the ongoing developments surrounding MCU. The prolonged crisis has generated fatigue and disengagement among members, making it difficult to assess whether the EGM resolutions alone can restore the institution's condition.</p>

Questions	Answer by: "SK Group" (Stakeholder 1)	Answer by: "KS Group" (Stakeholder 2)
<p>4. If your previous answer (number 3) was "NO", then how should MCU work to restore the trust of its members and the public?</p>	<p>The first step is to establish clearly whether a criminal offence has occurred. If such an offence is confirmed, members' funds must be returned. A comprehensive feasibility study should then be conducted to determine whether MCU can continue operating.</p>	<p>Recovery must proceed through legal mechanisms. Any perpetrators of embezzlement or fraud should be prosecuted, and governance structures must be reformed. The board of directors and supervisory board should be appointed through a transparent and merit-based selection process. Only after these measures are implemented should institutional rebranding be considered.</p>

Source: Constructed by authors

DISCUSSION

The following explanation is derived from discussions with a financial expert regarding the causes of MCU's financial crisis. Based on document analysis and in-depth interviews with two key stakeholders conducted over 28 days, several contributing factors were identified.

- 1. Deviation from Co-operative Principles:** The core objective of the credit union, to enhance members' economic well-being, was undermined by individuals pursuing personal and group interests.
- 2. Neglect of Member Education:** Feedback from the Annual Members' Meeting (RAT) and interviews indicated that members lacked sufficient understanding of co-operative governance. The principle of kinship often outweighed considerations of competence and educational background.
- 3. Weak Democratic Control:** Two critical organisational documents were either missing or unknown to board members and the wider membership, signalling a serious breakdown in democratic governance.
- 4. Inadequate Oversight:** Both internal supervisory mechanisms and external government oversight were ineffective, as confirmed by research informants.
- 5. Conflict of Interest:** The chairperson simultaneously held leadership roles at regional (Puskopdit) and national (Inkopdit) levels without clear boundaries of authority, creating structural conflicts of interest.
- 6. Procedural Irregularities in Member Participation:** An Extraordinary Members' Meeting held online in June 2024 failed to accommodate senior members requiring physical access. This further intensified distrust and internal divisions among members.

Prior to the crisis, one research assistant, also an MCU member, paid little attention to the institution's governance. Involvement in the Crisis Committee highlighted the importance of co-operative education and active member participation, given that ultimate authority lies in the members' meeting. Although MCU had operated successfully for decades, the rise in non-performing loans, non-transparent leadership, and the granting of extensive credit authority to managers led to overlapping strategic functions and governance failure (Tan, 2024).

In relation to social capital, MCU had developed strong networks within the Catholic community in West Java, generating symbolic capital in the form of reputation and goodwill. However, poor governance and concentrated authority eroded this trust, leading to liquidity decline and legal consequences.

From a social entrepreneurship perspective, the management of social capital requires careful governance:

- 1. Social Networks:** Trust in co-operative institutions declined due to perceptions that certain organisations were not neutral and appeared to defend problematic administrators or managers.

2. **Trust:** Members' trust deteriorated because of limited data transparency and the absence of firm legal action regarding the alleged misappropriation of savings. Restoring trust requires full co-operation with ongoing legal processes and greater transparency.
3. **Institutional Reform:** Strengthening governance structures is essential to rebuilding financial stability and member confidence. Clear regulations regarding multiple office holdings and decision-making authority must be established to prevent similar crises in other co-operatives.

CONCLUSIONS

From the MCU case, several important lessons can be drawn regarding how a credit union may sustain its social entrepreneurship mission. Trust, as a form of social capital, is a critical factor that must be continuously maintained, monitored, and evaluated. Kinship and friendship, which initially functioned as valuable social capital, eventually became sources of vulnerability that undermined institutional trust. This case demonstrates the paradoxical nature of social capital: while it may generate cohesion and solidarity, it may also become detrimental when not governed properly.

Another crucial factor concerns the recruitment and selection of staff and board members. Appointments should be based on competence, educational background, and professional knowledge rather than solely on kinship or personal relationships. Effective internal control and supervision are therefore essential, particularly when evaluators and those being evaluated share close personal ties.

Recommendations and Limitations

Given the increasing cases of fund misappropriation involving credit unions in Indonesia, regulatory frameworks require strengthening to enhance supervision, auditing, and timely intervention.

Prior to the crisis, one research assistant, although a regular member, paid little attention to MCU's governance practices. This study offers distinctive findings that may differ from other case studies. Future research could expand the discussion of social entrepreneurship in credit unions by exploring other dimensions or employing alternative methodologies to enrich the existing body of knowledge.

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