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### Managing the Regulatory Space: Examining Credit Union Accountability to Government in a Lightly Regulated Context

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**ABSTRACT**  
This paper examines how credit unions manage accountability to government in the lightly-regulated context of Indonesia. Adopting a qualitative methodology involving a case study approach, two credit unions are examined, through focus group discussions with credit union management and review of credit unions' annual reports and strategic plans. Findings reveal few formal compliance-based accountability mechanisms in relation to government, and limited emphasis on these mechanisms by credit unions. However, informally, credit unions involved government in various strategic ways to demonstrate accountability and legitimacy, and seek support from them, thereby managing the regulatory space to maintain a lightly-regulated context. This paper provides insights into how credit unions adopted a predominantly co-operative approach to manage and negotiate a space of limited regulation by actively demonstrating legitimacy and accountability. Presented in the form of an engagement pyramid involving four levels (i.e. compliance, self-regulation within the sector, engaging with regulators, and selectively challenging regulation perceived as unfair or unhelpful), this approach is particularly important given the seemingly less effective regulatory frameworks in more developed countries. It provides a reference for other organisations, both within the third sector and beyond, to consider how their actions might respond to and constructively shape the regulatory space, beyond comply or evade.

**KEYWORDS**  
Government; accountability; regulation; credit unions; Indonesia

**JEL CLASSIFICATION**  
G21; G23; I31; M40; M41

#### 1. Introduction

Credit unions are member-based social enterprises; co-operatives established for an important social function, and commercial entities operating in the financial system alongside banks and other financial institutions (Hyndman and McKillop 2018; McKillop and Wilson 2015). However, as social enterprises, credit unions' social mission is considered the main reason for their existence (Martinez-Campillo and Fernandez-Santos 2017; McKillop and Wilson 2011).

Demands for greater accountability of institutions with social goals have increased in the last two decades (Benjamin 2008; Ebrahim 2003a; Kaba 2021) and credit unions are

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# Managing the Regulatory Space: Examining Credit Union Accountability to Government in a Lightly Regulated Context

*by Sumarwan Antonius*

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### ABSTRACT

This paper examines how credit unions manage accountability to government in the lightly-regulated context of Indonesia. Adopting a qualitative methodology involving a case study approach, two credit unions are examined, through focus group discussions with credit union management and review of credit unions' annual reports and strategic plans. Findings reveal few formal compliance-based accountability mechanisms in relation to government, and limited emphasis on these mechanisms by credit unions. However, informally, credit unions involved government in various strategic ways to demonstrate accountability and legitimacy, and seek support from them, thereby managing the regulatory space to maintain a lightly-regulated context. This paper provides insights into how credit unions adopted a predominantly co-operative approach to manage and negotiate a space of limited regulation by actively demonstrating legitimacy and accountability. Presented in the form of an engagement pyramid involving four levels (i.e. compliance, self-regulation within the sector, engaging with regulators, and selectively challenging regulation perceived as unfair or unhelpful), this approach is particularly important given the seemingly less effective regulatory frameworks in more developed countries. It provides a reference for other organisations, both within the third sector and beyond, to consider how their actions might respond to and constructively shape the regulatory space, beyond comply or evade.

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### 1. Introduction

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Demands for greater accountability of institutions with social goals have increased in the last two decades (Benjamin 2008; Ebrahim 2003a; Kaba 2021) and credit unions are

also subject to these demands. Effectively addressing these concerns is important for credit unions' legitimacy, survival, and growth (Hyndman et al. 2004; McKillop and Wilson 2011). While research on credit union accountability remains limited, it has predominately focused on financial aspects and government requirements in well-regulated contexts (Hyndman et al. 2004; Hyndman and McKillop 2004; Wilson 2006). Of particular concern is that such regulatory regimes are not considered helpful to credit unions' organisational objectives, given the emphasis on financial reporting. This is due to both the time involved, and the limited value of this reporting (Hyndman et al. 2004; Hyndman and McKillop 2004; Wilson 2006). What is less clear, however, is how credit unions manage their accountability to government in lightly-regulated contexts.

This issue is particularly important as credit unions in developing countries play a valuable social and economic role, and how they interact with government may have significant implications not only for current and future organisational objectives, but also for future regulation of the sector. Specifically, there is a risk that complacency by credit unions or lack of understanding by regulators may result in increased regulation in ways that do not necessarily assist credit unions to fulfil their objectives (Greinke 2005; Wilson 2006). Accordingly, this study explores how credit unions manage their accountability to government in the lightly-regulated context of Indonesia, through a case study approach.

Findings provide valuable insights into *for what, how and why* credit unions are accountable to government in an environment with low regulatory pressures, highlighting the strategic management of accountability to government in a lightly-regulated context. The importance of demonstrated order and legitimacy to manage the regulatory space is also underscored (Bernstein 1955; Hancher and Moran 1989) through the development of an engagement pyramid which considers both accountability and regulation theory. The following sections of this paper present the background to credit unions in Indonesia, and explore accountability and regulation theory in the context of credit unions. Details regarding the methodology and the cases of this study follow. Section 5 presents the findings, Section 6 compares these findings with the literature, and Section 7 outlines conclusions and areas for future research.

## 2. Background: Credit unions in Indonesia

Indonesia's credit union movement began in the 1970s, initially promoted through the Catholic Church. The number of Indonesian credit unions peaked in the mid-1990s (1601 organisations) (Imawan 2010), and since that time membership and assets have continued to increase (3.2 million members, US\$2.3 billion in assets as of 2018) (WOCCU 2019). Despite the size of Indonesia's credit union sector (15th largest globally) (WOCCU 2019), in percentage terms its market penetration remains small (1.2% of the country's population).

Although Indonesia's credit union movement continues to have strong religious ties (Imawan 2010), membership is open to any individual irrespective of their religious background. Local communities (religious and/or non-religious) become fundamental social units around which many credit unions operate, and some who participate in the management of credit unions often consider their involvement as implementing Catholic social values, in particular an obligation to serve the poor and promotion of a just society (Benedict 2009; Taruk 2018).

Under Indonesian Co-operative Law No. 25 (Government of Indonesia 1992), credit union management has three levels: board directors, executives (management), and supervisory committee, who act on behalf of the organisation and are accountable to a range of stakeholders. From a normative or moral perspective (Connolly and Hyndman 2017), credit union members hold supreme power and exercise this through members' meetings (Government of Indonesia 1992; McKillop and Wilson 2011, 2015). Yet in practice, board directors are elected by members, and establish policies under which the credit union operates. They typically employ management and staff who manage the credit union's daily operations, with the assistance of volunteers. The supervisory committee is elected by members to supervise the board. Thus, management, staff, and volunteers are accountable to the board, while the board is accountable to the supervisory committee. Each of these individuals is required to be a member of the credit union.

### 3. Accountability in the context of credit unions

The increased demand for accountability in institutions and organisations is well established (Bovens 2007; Ebrahim 2010), yet rationales for and responses to this demand vary. In the context of third sector organisations, accountability is considered to help build and maintain trust (Hyndman and McConville 2018), aid performance (Edwards and Hulme 1995), and mission achievement (Christensen and Ebrahim 2006). Others contend it enhances organisational learning (Ebrahim 2007), and is a key element of organisational stability and sustainability (Connolly and Kelly 2011).

Bovens (2010) presents two different ways of understanding accountability: as a virtue and as a social mechanism. Seen as a virtue, accountability is a set of standards for the evaluation of public actors' behaviour, such that being accountable is a positive quality of organisations, similar to responsiveness and a sense of responsibility (Blagescu, de Las Casas, and Lloyd 2005). Used in a narrower, descriptive sense, accountability can be viewed as a social mechanism, an institutional relation or arrangement in which an agent can be held to account by another agent or institution (Bovens 2010), 'a process of holding actors responsible for actions' (Fox and Brown 1998, 12). Understood in this way, the focus of accountability studies is not the behaviour of public agents, but the way in which institutional arrangements operate (Bovens 2010). This research approaches accountability predominately in the sense of a social mechanism, focusing on credit unions' management of accountability to government in a lightly-regulated context.

Keams (1994) and Ebrahim (2010) differentiate between two types of accountability: compliance-driven (reactive response to legal requirements) and strategy-driven (a proactive approach to addressing concerns about public trust). Research in highly-regulated contexts (i.e. Ireland and the UK) (Davis and Brockie 2001; Hyndman et al. 2004; Hyndman and McKillop 2004) notes credit unions' accountabilities are more compliance-driven than strategy-driven and induced by external pressures rather than an internal impetus. However, Fry (1995) refers to the importance of felt accountability as a motivator influencing of accountability to others, underscoring commitment to mission and associated obligations to others as part of that mission. Hence, the notion of strategic or social(ising) accountability (Ebrahim 2003b; O'Dwyer and Unerman 2007; Roberts 2001) has been raised as an informal yet important aspect of accountability.





Ebrahim (2010) considers accountability through the questions of *to whom, for what, how, and why?* As member-based organisations, normatively credit unions are accountable primarily to their members (Hyndman et al. 2004; McKillop and Wilson 2011). However, previous research acknowledges the influence of credit unions' accountability to government (Davis and Brockie 2001; Goddard, McKillop, and Wilson 2009; Hyndman et al. 2004) and industry associations (Forker and Ward 2012; Hyndman and McKillop 2006) in well-regulated contexts. Specifically, concerns have been raised regarding performance measures in British credit unions being influenced by governmental stakeholders concerned with financial aspects, not aligned with credit unions' dual objectives (Davis and Brockie 2001). As such, measures used to assess credit union performance were inconsistent with the policy objectives of other stakeholders, such that regulatory requirements created contradictory accountability requirements. Similarly, in the Australian context, researchers note a regulatory regime which treats credit unions like banks with various requirements (e.g. capital adequacy and product disclosure statements for all products) may hamper the ability of credit unions to contribute meaningfully to financial inclusion (Greinke, 2005; Wilson 2006).

Regarding accountability requirements, Hyndman et al. (2004) and Hyndman and McKillop (2004) found that credit unions in the UK and Ireland spent more time and effort preparing annual reports for government than members. Similarly, Australian regulatory requirements were considered costly by many credit unions (Greinke, 2005; Wilson 2006). Further, despite an emphasis on financial reports, these were incomplete and inadequate (Hyndman et al. 2004; Hyndman and McKillop 2004), and thus of limited value. Similarly, Davis and Brockie (2001) note that British credit unions were hampered by the unclear objectives and performance measures set by various external regulators (e.g. local authorities, central government, the Registry of Friendly Societies, Financial Services Authority).

Industry (or self) regulation (Ebrahim 2003a; Gunningham and Rees 1997) of credit unions exists at various levels (e.g. national, international). However national associations are considered to play a more important and influential role in the credit union movement (Forker and Ward 2012; Hyndman and McKillop 2006). An increase in self-regulation has been noted in a range of countries and third sector contexts (Bies 2010; Gunningham and Rees 1997; Sidel 2010) with various benefits including enhanced industry governance and standards, and stronger institutional identity. However, in the context of credit unions, industry associations have been noted for formal monitoring of members' behaviour and performance (e.g. through reporting requirements, audits, and site visits), and holding them to account (Forker and Ward 2012; Hyndman and McKillop 2006). Thus, in well-regulated contexts, accountability *to whom, for what, how, and why?* seems dominated by government and other industry associations, primarily for formal accountability requirements regarding financial performance reporting, to ensure compliance.

As member-based social enterprises, from a normative perspective, credit unions might be considered accountable to a range of stakeholders for both social and financial performance (McKillop and Wilson 2015). Hence, in a developing country context such as Indonesia with low regulatory pressures (Aspinall 2019; McLeod 2010), it is important to examine and understand what regulatory requirements exist and how credit unions manage their accountability to government in an environment which affords discretion or freedom.

### 3.1. Regulatory environment of Indonesia's credit union sector

According to Indonesian Co-operative Law No. 25 (Government of Indonesia 1992), the objective of co-operatives is 'to improve members' and society's economic and social welfare' (Art. 3 and 4). The principles of co-operatives include voluntary and open membership, democratic governance, profit distributed fairly to each member based on their contribution to the co-operative, limited distribution of profit, and independence. Indonesian Cooperative Law assigns limited functions to government in regulating the sector (e.g. to give and revoke legal entity status to a co-operative, Art. 9 and 46). However, it also details government's general assistance role for credit unions and other co-operatives, aiding in their development through provision of 'guidance, facilities, and protection' (Art. 60).

In 2015 the Ministry of Cooperatives and Micro-, Small-, and Medium-Enterprises issued several rules and decrees intended to help co-operatives improve their operations and governance. However, the implementation of these rules largely depends on each co-operative, as there are no sanctions for non-compliance. The roles of government are mentioned in general terms such as active review (e.g. visiting a co-operative experiencing financial problems) and passive review (e.g. examining reports of a well-organised co-operative), routine supervision as opposed to unscheduled supervision, and preventive versus corrective supervision. However, these regulations concern the responsibilities of officials rather than the obligations of co-operatives.

Regulation No. 20 (Ministry of Cooperatives and Micro-, Small- and Medium-Enterprises of the Republic of Indonesia 2015) defines co-operative accountability as 'the obligation of co-operative boards or management to render an account of its performance' (Art. 1). However, the implementation of accountability is largely left to each co-operative. The regulation obliges the board and the supervisory committee to conduct a self-assessment of the co-operative, which should be submitted to officials within two months after the end of the fiscal year or before the annual members' meeting. Co-operatives with loan portfolios greater than IDR 2.5 billion (approximately US \$176,000) are also required to be audited annually by a public accountant. However, there is no sanction for not submitting self-assessments or undertaking audits. The only incentive is that the co-operative will receive a certificate as confirmation that it has discharged its accountability according to the Ministry's regulations. Thus, while regulations exist, they are modest in scope, and regulators have minimal powers of enforcement.

Beyond government, the Credit Union Central of Indonesia (CUCI) is an industry association that exists as a national federation with extensive regional networks, whose role is to support the credit union sector. Throughout Indonesia, it provides training to community leaders establishing credit unions, and industry regulations for the sector more broadly. Membership of CUCI is voluntary but common within the sector, as it provides access to various resources, both financial (e.g. insurance for members) and non-financial (e.g. training and audits). Above CUCI are the Asian Confederation of Credit Unions (ACCU) and the World Council of Credit Unions (WOCCU). The ACCU assists in the development of the credit union movement in Asia, providing training for credit union management and training modules for credit union members. WOCCU has a similar role, assisting in the development of the credit union movement on a global scale.

The limited extent of regulation in Indonesia's credit union sector to date may in part be attributable to it being considered nascent (Ferguson and McKillop 2000), and its reach small. Also relevant, however, is the presence of regional, national, and international credit union associations which establish industry standards and regulations (Forker and Ward 2012; Hyndman and McKillop 2006); the regional network in particular having considerable reach in terms of geographic representation, despite membership being voluntary. Thus, the presence of an industry association (CUCI) to establish standards is perhaps an 'external' influence on which government can rely due to CUCI's knowledge and expertise (Maher 2017). However, such institutions and standards are also relied upon by the credit union sector to establish accountability and maintain order and legitimacy.

### 3.2. Accountability and regulation theory in the context of credit unions

As noted previously (Section 3), aspects of accountability theory with particular relevance to credit unions in a lightly-regulated context include strategic or social(ising) accountability, as opposed to compliance-based accountability (Ebrahim 2010; Kearns 1994). The notion of strategic accountability refers to a proactive rather than reactive approach, where an organisation might choose to adopt discretionary or professional (industry-related) accountability practices (Kearns 1994). Alternatively, strategic accountability may involve employing a negotiated approach, such that the organisation seeks to influence its regulatory environment. A social(ising) accountability dimension promotes informal accountability practices (e.g. dialogue and interaction) in contrast to more formal and 'distant' compliance-based accountability (Ebrahim 2003b; O'Dwyer and Unerman 2007; Roberts 2001). While these notions have particular relevance to Indonesia's credit union sector – operating in an environment where the emphasis on compliance-based accountability is limited, they have primarily been considered in the context of grassroots accountability processes and mechanisms (Awio, Northcott, and Lawrence 2011; O'Leary 2017; Yang and Northcott 2019), but less so in the context of interactions with regulators.

Although accountability theory presents notions of compliance versus strategic accountability, consideration of these issues in the context of regulation theory provides the opportunity for more detailed examination. The role of regulation in the public and private sectors is intended to provide order and protection (Hood, Rothstein, and Baldwin 2001; Majone 1996). However, regulation has both benefits and costs (Maher 2017). Regulation has been viewed as facilitation, enabling through permission or authorisation, and legitimising through approvals and audits (Gaffikin 2005). It has also been argued as preserving competition (preventing monopolies), promoting fair trade and distribution, preventing exploitation, and enhancing co-ordination of economic activity through industry efficiencies (Hood, Rothstein, and Baldwin 2001). Yet, critics argue deliberate state influence is an attempt to control, resulting in political interference, and onerous reporting requirements (Selznick in Baldwin and Cave 1999) such as those noted in Australia, Ireland, and the UK's credit union sector. Specifically, concerns regarding regulation emerge in terms of overseeing what is 'fair' versus government interference. Hence the extent and form of regulation become contentious. Also of concern is how organisations or other parties might shape regulation and/or inappropriately



influence regulatory developments (Posner 1974), referred to as regulatory capture (Grabosky and Braithwaite 1986).

From a regulator's perspective, Gunningham and Sinclair (2017) argue smart regulation involves in the first instance, less interventionist measures. They present an enforcement pyramid ranging from persuasion at the base, through warning letter, administrative notice, civil penalty, criminal penalty, and licence suspension and revocation (see Figure 1).

Arguably, however, this framework reflects and is a function of both regulators' approaches, and organisations' responses. As the need for formal enforcement and sanctions rises, measures progressively increase to those at the top of the pyramid. Less considered, however, is how organisations respond to regulatory environments, managing or shaping the regulatory space, particularly in lightly-regulated contexts.

From an organisational perspective, Ayres and Braithwaite (1992) consider two basic responses to regulation, being comply or evade, representing two simple, conceptual extremes. Arguably, however there are a range of positions between these extremes, which are not explicitly addressed in the literature, but may contribute to the notion of responsive regulation (Braithwaite 2017) where the actions of both government and organisations might shape the regulatory space. Thus, engagement with both regulation and regulators may assist organisations in managing their accountability, whilst also shaping the regulatory boundaries and terms within which they operate.

The notion of responsive regulation, however, is presented as a general concept, and mapped in specific organisational and industry contexts (e.g. environmental protection authority, transport authority, aged care) (Braithwaite, Makkai, and Braithwaite 2007; Ivec and Braithwaite 2015), pharmaceutical (Dukes, Braithwaite, and Moloney 2014), coal (Braithwaite 1985), occupational health, and safety (Braithwaite and Grabosky 1985). Comparison of these findings reveals similarities at the base of the pyramid in terms of persuasion and education, underpinned by the notion of organisations as learning citizens and rational actors (Braithwaite 2021). Of note, however, is the significant variation in these contexts regarding subsequent steps, ranging from shaming for inaction (Dukes, Braithwaite, and Moloney 2014), to short-term and/or long-terms suspended benefits, to de facto closure (Braithwaite, Makkai, and Braithwaite 2007), dependent on the powers and priorities of the regulator, and underpinned by the notion of organisations as incompetent or irrational actors (Braithwaite 2021). Yet theorising in terms of a framework detailing steps or stages regarding how those being regulated might



**Figure 1.** Enforcement pyramid. Source: Gunningham and Sinclair (2017).

effectively manage the regulatory space, has not previously been considered. In a context where the emphasis on compliance-based accountability is relatively low, consideration of both accountability and regulation theory highlights the importance of examining actions beyond comply or evade. In particular, joint consideration of these theories suggests a potential overlap, where strategic accountability might help to manage the regulatory space.

As noted previously, regulation of credit unions in developed countries has hindered rather than supported their operations (Greinke 2005; McKillop and Wilson 2003; Wilson 2006). Hence, an important dimension of regulation theory is the roles of government and organisations in lightly-regulated contexts, and how credit unions manage accountability to government within the regulatory space. Yet, the presence and role of other regulatory authorities is also relevant to the broader regulatory environment, and thus becomes an important aspect to consider. The following section outlines the methods undertaken to examine how two Indonesian credit unions address these issues in an environment with low regulatory pressures.

#### 4. Methodology

This research adopts a constructivist paradigm (Creswell 2014), assuming realities are plural, socially and experientially based, local, and subjective. Adopting this paradigm, this study explores how board members, supervisory committee members, and managers of credit unions give subjective as well as collective meanings to their accountability to government, with the researchers assuming an interpretive role. A qualitative methodology was consistent with the exploratory nature of this study. Case studies on two credit unions provided in-depth knowledge (Eisenhardt 1989; Yin 2014) through focus group discussions with credit union practitioners, informal discussions with credit union management, staff, and members, and archival documents. Focus group discussions took the nature of group interviews (Frey and Fontana 1991) providing a synergy of multiple, often shared experiences from individual participants' perspectives. As such, participants' understandings and were compared with one another during the course of the discussions (Agyemang, Awumbila, and O'Dwyer 2009; Christensen and Ebrahim 2006). Documentary analysis provided insights into each organisation's intentions and achievements.

The two cases selected had both similarities and differences. Both participating credit unions had religious affiliations, and emphasised an intention to achieve social goals (i.e. member welfare and empowerment, community development). Both were of similar age (approximately 10 years old), and performed well in the five years up to 2016 regarding growth in membership and assets. However, differences included the credit unions' size and competitive market. Credit Union Sauan Sibarrung (CUSS) had a large membership and asset base (31,608 members; US\$29.4 million in assets), and operated in a less competitive market; CU Tyas Manunggal (CUTM) had a smaller membership and asset base (2399 members; US\$1.5 million in assets) and operated in a more competitive market. Thus, the cases were chosen as illustrative as well as exploratory to investigate how accountability to government might be managed in a lightly-regulated environment, but also for their cumulative value (to the extent that findings overlapped), in the somewhat unique setting of Indonesia's credit union sector, with low regulatory pressures (Yin,

2014). Table 1 presents a summary profile of the two credit unions based on the publicly available information (annual reports).

In each case, separate focus group discussions were conducted with board directors, the supervisory committee, and senior managers. These participants were purposely chosen due to their roles, experience, and knowledge in governing and/or managing credit unions. A semi-structured focus group discussion protocol was designed to explore issues surrounding accountability to whom, for what, how, and why; facilitating consistency in the data collection process and effective data analysis (Morgan 1997). This paper focuses on findings relating to accountability to government as regulators, and the industry associations establishing standards ('self-regulation', Ebrahim 2003a) within the sector. This approach was considered important given both parties impacted the broader regulatory environment and potentially influenced government regulation.

Focus groups discussions were conducted in-person by the lead researcher in May 2017, in Bahasa Indonesia – the native language of both lead researcher and focus group discussion participants (hereafter 'interviewees') – to facilitate ease and clarity in dialogue. Discussions averaged 1 h 20 min each (ranging from approximately one to one and a half hours), and involved a total of 25 participants representing three separate levels of management within each credit union. Focus group discussions were audio-recorded and subsequently transcribed verbatim. Transcripts then were translated into English.

Archival data included the credit unions' two most recent strategic planning documents (2016 and 2012) and annual reports for the same periods. While the ideal and long-term goals of the organisations were communicated in the strategic planning documents, the annual reports were reviewed to consider the achievement of these goals.

In addition to formal data collection, the lead researcher also engaged in several (approximately 20) informal meetings with various credit union management, staff, and members, and attendance at committee meetings, at the invitation of each of the two credit unions' management. These meetings were arranged and undertaken during site visits to each credit union (approximately one week for each organisation), which provided further insights and the opportunity to observe interactions amongst members, staff, and management in the credit unions. Table 2 summarises the data collected for this study.

Focus group discussion transcripts and secondary data were reviewed to examine how credit unions manage accountability to government in a lightly-regulated context and consider the regulatory implications. Thematic analysis initially focused on accountability practices and underlying motivations, based on compliance versus strategic accountability. Further analysis of practices then focused on responding to and managing the

**Table 1.** Profile of the two cases.

	CUSS	CUTM
<b>Mission</b>	Member empowerment	Member welfare
<b>Age</b>	10 yrs	11 yrs
<b>Size</b>		
Membership	31,608	2399
Assets	US\$29.4 m	US\$1.5
Branches	12	1
<b>Market competitiveness</b>	Low	High

**Table 2.** Data collection.

Data collection type	CUSS	CUTM
Focus group discussions	3 Board (4) Supervisory Committee (2) Senior managers (10)	3 Board (3) Supervisory Committee (2) Senior managers (4)
Informal discussions	10	10
Site visits/observation	1 week	1 week
Annual reports	2	2
Strategic plans	2	2
Committee meeting	3	2

regulatory space, progressive levels of which were identified (i.e. compliance, self-regulation within the sector, engaging with regulators, selectively challenging regulation perceived as unfair or unhelpful), together with the accountability implications. These levels were compared with the broader notions of comply or evade responses identified in the literature (Ayres and Braithwaite 1992), as well as notions of responsive regulation (Braithwaite 2017), smart regulation and an enforcement pyramid (Gunningham and Sinclair 2017), considered from a regulator's perspective. Thus an abductive approach was adopted moving between data and theory, to consider responses from the perspective of those being regulated. This provided the basis for the development of a framework for organisations aiming to shape the regulatory space, resulting in an engagement pyramid.

## 5. Findings

### 5.1. Accountability to the government

#### 5.1.1. Compliance

Both credit unions acknowledged their accountability to the government as legal entities and worked to satisfy most government rules and requirements (e.g. licences for business operation, social security for employees, taxes) as well as submitting annual reports to the Department of Cooperatives and inviting them to attend Annual Members Meetings (AMMs), where the credit unions reported on performance to the members.

We are a legal entity, so, we have to be accountable also to the government. (personal communication, Managers, CUSS, 2017)

Complying with government requirements was considered beneficial for the members, employees, and the organisations; perceived 'positively', resulting in 'moral support' and recognition (personal communication, Managers, CUTM, 2017). Interactions with government also resulted in additional benefits such as government-run business and technical training provided to members.

By [complying with government] we get benefits especially on the business development. It is specifically for employees, but also for the institution. (personal communication, Managers, CUSS, 2017)

Hence compliance was used as a foundation to establish a constructive working relationship with government, rather than being perceived as a burden or threat.



### 5.1.2. Strategic

*Engaging with regulators* Engaging with government included attending meetings with other credit unions held by the Department of Co-operatives to provide updates on the credit unions' performance, submitting AMM reports, and including government in events open to the public.

We want to prove that we do empower members. So, we work together [attending meetings] with the government as well. (personal communication, The Supervisory Committee, CUTM, 2017)

... if there are public activities, we [invite government]. They will come to give instructions and input. [We fulfil these demands] because we are part of Indonesian society ... We are part of [the local] community, so we have to build co-operation. (personal communication, Managers, CUSS, 2017)

The credit unions also leveraged compliance mechanisms such as the AMM to demonstrate the achievements of the organisations' financial and social objectives. In particular, while the AMM was a forum primarily for the organisation to report on the financial statements to members, and considered important to the credit unions in order to demonstrate accountability to them (perceived in part as a moral obligation), it was also used to educate members and seek their feedback and suggestions. Thus, ensuring Government was invited to attend this, highlighted to them the efforts and progress being made.

[In the AMM] we would like to know how far members have absorbed the knowledge given to them. For example, CUTM has a member welfare program through basic education which mostly focuses on financial literacy education. We want to know how well members perceive it and also the results. It is also related to the improvement of members' lives. (personal communication, The Supervisory Committee, CUTM, 2017)

Thus, accountability mechanisms directed to members were also brought to government's attention, in order to demonstrate organisational legitimacy and order to them.

*Selectively challenging regulation* Despite the two credit unions trying to maintain a positive relationship with the government, there were differences regarding the extent to which they complied with government requirements, as well as some tensions. Both credit unions used their relationship with government to challenge existing regulation or advocate for change in specific contexts. CUSS continued to negotiate with government regarding tax on interest received by members (arguing for low or no personal income tax on small amounts (US\$18) of interest received).<sup>1</sup> Similarly, CUTM delayed being audited by a public accountant.<sup>2</sup>

We have not been audited by a public accountant. We have communicated it to members. We told them that the audit is not a complicated matter, but the implication matters. It costs a lot. I believe that the audit is needed when the members do not trust the institution ... We have not conducted it until now. (personal communication, Managers, CUTM, 2017)

Thus, both credit unions engaged with government as a form of accountability, but neither passively adopted a comply or evade approach in all aspects of their operations. Rather, they used *compliance-based accountability* as a foundation to establish a positive working relationship with government. They then leveraged from this with *strategic accountability*, actively engaging with government in various activities (e.g. meetings, AMM) to further develop this relationship, demonstrating legitimacy and accountability

of the organisation to government. Last, the credit unions selectively challenged regulation they felt was unhelpful or unfair; supported by an established relationship with government, and reasoning that specific regulation was not in members' interests, or conducive to an effective regulatory environment.

### 5.2. Accountability to industry associations (self-regulation)

Interviewees of CUTM identified accountability to the credit union industry associations as important, involving submission of financial reports to CUCI and its regional associations. Attending meetings with other credit unions and receiving visits from them was considered as a form of accountability and involved learning from one another, which was valued in the credit union movement, motivated by a spirit of sharing and learning.

It is because of the spirit of sharing. We can also learn from them. They may share what happens in their credit union which is actually possible to be applied in CUTM. (personal communication, Board, CUTM, 2017)

Hence, accountability to the industry association included a shared sense of accountability to industry peers based on the values underpinning the credit union movement (encouraged by the industry association),

Similarly, for CUSS, being accredited as an ACCESS credit union by the ACCU was considered a hallmark of accountability within the credit union network, the process of accreditation helping CUSS improve its financial and operating performance and enhance its accountability.<sup>3</sup>

The improvement of the accountability quality is a certainty and, indeed, it should have connections to it ... By preparing to be assessed by ACCESS, we improved in many aspects. (personal communication, Managers, CUSS, 2017)

This broader regulatory environment provided a valuable platform for the sector to establish legitimacy, and a level of assurance to government as regulator that sound industry regulations were established and effective accountability mechanisms employed. Thus, accountability was both for <sup>28</sup> and informal, reflecting compliance with rules and expectations, but also strategic, driven by a felt sense of obligation to enhance the organisations' performance and better serve members.

## 6. Discussion

In examining the findings, two issues emerge for consideration: the leveraging of compliance-driven accountability for strategic purposes, and the engagement with regulators to effectively manage the regulatory space. Each of these issues is considered below.

*Leveraging compliance-based accountability* Comparing credit unions' perceptions and practices of accountability, both credit unions largely complied with government regulation. However, both organisations went beyond regulatory requirements of reporting on the financial health of the credit union (e.g. at the AMM), and submitting reports to government, to actively involving the government in the AMM, and using this forum to demonstrate the various accountability processes and mechanisms related to mission and members (e.g. educating members, enhancing their financial literacy skills to apply in their own small business operations). Thus, the credit unions involved government

when discharging accountability to members, in order to demonstrate their accountability processes and outcomes, reinforcing their organisational legitimacy (Connolly and Kelly 2011). Such actions and interactions are consistent with the notion of smart regulation (Gunningham and Sinclair 2017), with minimal interventionist measures, but also responsive regulation (Braithwaite 1985), where engagement with regulators assists in managing accountability.

While compliance-based accountability mechanisms to government were limited in scope, the credit unions generally worked to address these. Further, they considered regulatory compliance mechanisms as an opportunity to *engage* with government, gain recognition and support, and benefit members through access to resources and advocacy. Thus, regulatory accountability to government was strategically leveraged to enhance accountability to members (Ebrahim 2010; Kearns 1994), and included a socialising dimension (Roberts 2001), developing a relationship with government. Of note was that responses to government on compliance-based issues were not always positive (e.g. CUSS's concerns regarding taxation on the small amounts of interest received by members; CUTM choosing not to be audited by a public accountant due to the associated cost). However, neither credit union's response was limited to comply or evade (Ayres and Braithwaite 1992). Rather, the credit unions actively engaged with government (e.g. lobbying, transparent disclosure of non-compliance), to represent the interests of members.

Regarding accountability to the industry associations, both credit unions took the responsibility of compliance seriously, but considered compliance and membership more broadly as a strategic opportunity (Kearns 1994) for learning, sharing, and as a hallmark of their accountability (Christensen and Ebrahim 2006; Ebrahim 2007). Specifically, credit union practitioners in this study demonstrated compliance-driven accountability (submitting reports) to the industry associations, but emphasised strategy-driven accountability (e.g. meetings and visits among credit union association members) as an opportunity to enhance the organisation, and the services provided to members. Thus, this accountability was viewed as beneficial for both the institution and its members, highlighting the potential for strategic accountability to be leveraged for the benefit of multiple stakeholders.

Overall, findings reveal that credit union accountability to government was relatively easily managed, as requirements were largely consistent with the organisations' objective of helping members, unlike more regulated countries such as Ireland (Hyndman et al. 2004), the UK (Davis and Brockie 2001; Hyndman and McKillop 2004), and Australia (Wilson 2006). Further, while compliance-driven accountability to government was acknowledged, an emphasis on strategy-driven accountability was noted to secure resources (Benjamin 2008), legitimacy (Connolly and Kelly 2011), and trust (Hyndman and McConville 2018). Findings also underscore the importance of accountability to the industry associations (Goodin 2003), supporting perceptions of an effective industry or self-regulated environment, which provided assurance to government of sound accountability processes within the sector.

*Managing the regulatory space* Reflecting on the findings in terms of regulation theory, it may be argued that in a regulatory space with limited requirements, the credit unions predominantly complied with those requirements, but also leveraged from them, actively engaging with regulators to demonstrate legitimacy and accountability. Further, through interactions and relationships with government the credit unions sought to negotiate and

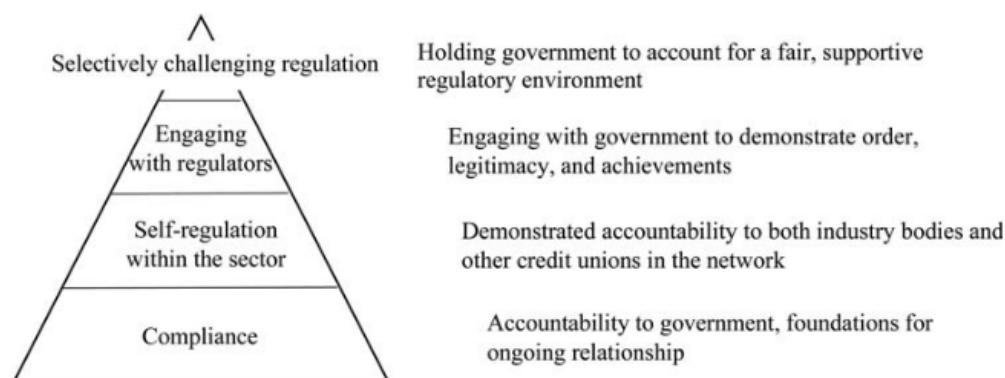


manage the regulatory space by complying with regulation they considered reasonable, and selectively challenging rules viewed otherwise; resulting in a sense of also holding government accountable for a reasonable and effective regulatory framework. Arguably, this was supported by a platform of self-regulation within the sector, which provided further assurance to government that sound regulations and accountability mechanisms were in place. These levels of engagement are presented in the form of an engagement pyramid in Figure 2, involving four stages:

- (1) building a co-operative relationship based largely on compliance
- (2) using self-regulation within the sector to demonstrate accountability to industry associations and other credit unions in the network
- (3) engagement with government to demonstrate order and legitimacy through accountability to members, and
- (4) selectively challenging regulation considered unfair or unhelpful, effectively holding government to account for a fair, supportive regulatory environment.

Specifically, this figure highlights a responsive approach by the credit unions, and the associated accountability implications. It also provides a framework which can be applied in other contexts, to guide organisations attempting to negotiate or manage the regulatory space. This framework presents an alternative to that previously considered in the literature (in particular, the extremes of comply or evade), and promotes working with regulators to form effective regulation. Hence, viewed from the perspective of those being regulated, an engagement pyramid highlights how organisations, particularly in a lightly-regulated environment, might effectively work with government to shape the regulatory space.

Of note is that management within the credit unions decided which regulations to challenge or attempt to change (negotiated accountability). Further, the regulations they did challenge were considered to be in the interests of both members and the wider organisation, in terms of mission. Importantly however, the credit unions were selective in terms of the regulatory issues challenged, and had a developed a relationship with government based largely on co-operation and compliance. Thus, the risk of adverse relations with government was minimised. Yet, the relationship and regulatory outcomes



**Figure 2.** Engagement pyramid.



may have been significantly different in different contexts (e.g. highly-regulated environment, where no relationship was previously developed with government, nor a foundation of compliance). Hence, organisations need to be conscious of these issues, when engaging with regulators and attempting to influence or manage the regulatory space.

Interest group theorists see regulatory developments as the product of relationships between different groups and the state (Posner 1974). However, rather than involving a competition for power, findings in the context of Indonesia's credit union sector reveal an informally negotiated arrangement between credit unions and the state; a regulatory space shaped by demonstrated order and accountability (Bernstein 1955; Hancher and Moran 1989). Hence, the resulting framework of an engagement pyramid reflects an area of overlap between accountability and regulation theory. Specifically, credit unions sought to establish and maintain legitimacy of the organisations and sector more broadly through the proactive involvement of government in the credit unions' operations; in particular their accountability processes to members and mission more broadly. This exposure reinforced credit unions' operations as representing the pursuit of the public interest (not only through the values pursued, but also through the accountability processes employed and performance outcomes achieved). This practice may be viewed as a sociological approach to regulatory capture (Grabosky and Braithwaite 1986), taking the opportunity to co-operate with government to preserve an environment of minimal regulation; private pro-social interests being balanced with government oversight of a sector pursuing public good.

## 7. Conclusion

As member-based social enterprises operating in many parts of the world, credit unions provide valuable financial and social services to members. Despite the growing demand for accountability experienced by mission-driven organisations, research has focused on the limitations of government regulation and financial accountability in highly regulated contexts. In the lightly-regulated context of Indonesia, employing accountability and regulation theory, this research revealed how credit unions managed their accountability to government to shape the regulatory space.

This study contributes to the existing literature on member-based social enterprises, specifically credit unions as financial co-operatives, and theory on accountability and regulation, highlighting through case studies how two credit unions adopted a predominantly co-operative approach to manage and negotiate the regulatory space affecting the sector and its members. Findings reveal a space of limited regulation being responded to by credit unions actively demonstrating legitimacy and accountability. This approach is particularly important given the seemingly less effective regulatory frameworks in more developed countries, and the risks posed if such frameworks were uncritically adopted or imposed in less developed country contexts.

The implications of this study extend to both theory and practice regarding regulation and accountability. The development of an engagement pyramid based on the credit unions' operations provides an important reference for other organisations, both within the third sector and beyond, to consider how their actions might constructively shape the regulatory space, beyond the dimensions of comply or evade. From an accountability

and regulation practice perspective, it is important organisations take active steps to demonstrate order and legitimacy, making government aware of (and perhaps witness to) accountability practices directed to other stakeholders. Such actions suggest the importance of strategic or social(ising) accountability (Ebrahim 2003a; Roberts 2001). Further, the value of effective industry regulation is highlighted. From an accountability and regulation theoretical perspective, appreciation of the overlap and interrelated nature is underscored. In particular, aspects of accountability such as self-regulation and social(ising) accountability have direct relevance to responsive regulation, negotiating and managing the regulatory space.

As with all research, this study has limitations. First, this study explored credit union accountability based on credit union board members, the supervisory committee, and managers' perspectives. Although these people have valuable experience and understandings of organisational accountability from a management perspective, the findings may differ if focus group discussions or interviews were conducted with members, government officials, or management of industry associations. While this study was limited to two cases, it provided the opportunity to explore these cases in depth (Eisenhardt 1989), findings from which provided insights into other credit unions' accountability practices to government (attending government meetings), and CUCI (receiving and sending visitors from other credit unions). However, studies involving a larger sample, and different organisational traits than those in the credit unions examined (e.g. mission centred nature and financially sustainable), and those operating in other lightly-regulated environments, may result in different findings, and represent important areas for future research.

As member-based social enterprises, credit unions have a long tradition and significant experience in addressing poverty through financial inclusion (Kalmi 2012; McKillop and Wilson 2011; Wilson 2006). Accordingly, understanding the accountability processes that support this in a lightly-regulated context provides valuable guidance for developing countries regarding how to enhance the work of credit unions, and an appreciation of alternative pathways for developed countries whose regulatory frameworks are considered barriers rather than enablers.

## Notes

1. Given the organisation had paid tax on interest earned, it argued it was unfair for members earning small amounts of interest from the credit union, to also be subject to tax on that income.
2. An annual requirement based on the organisation's size (loan portfolio). Refer Section 3.1.
3. While international accreditation was a choice of individual credit unions based on their strategy, goals, and objectives, for credit unions who chose to pursue this, support from the local industry association (and at times government) was typically provided (e.g. assistance with understanding and preparing for accreditation requirements).

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## Disclosure statement

No potential conflict of interest was reported by the author(s).

## Compliance with ethical standards

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This research was reviewed and approved by Queensland University of Technology (approval number 1700000683).

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