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SWOBODA RESEARCH CENTRE

Social value reporting: rebalancing legitimacy in credit unions

Peter Cleary, Martin Quinn and
Martijn van der Steen
February 2022

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The Centre is rooted in values of co-operation, participation, social and financial inclusion, transparency, integrity, and excellence. Much of its work is done in collaboration with Liverpool John Moores University.

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Table of Contents

Executive Summary 1
1. Introduction 2
2. Organisational legitimacy and credit unions 3
3. Non-financial and social impact reporting by credit unions 6
4. Methods 8
5. Perceptions of regulatory reporting in Irish credit unions 9
6. Perceived advantages and barriers of social impact reporting 11
7. Rebalancing credit union legitimacy 14
8. Conclusions and recommendations 16

References 17
Appendix – List of Interviewees 18

Membership of the Swoboda Research Centre 19

Executive Summary

Credit unions are co-operative non-profit organisations which serve the financial needs of their members, many of whom may have had difficulty accessing credit from the traditional banking sector. Since the establishment of the first credit union in Ireland in 1958, the credit union movement has become synonymous with a positive impact on the local communities that they serve in the form of a multitude of benefits provided, chiefly through their promotion of thrift and provision of finance, but also through sponsorships and academic scholarships for specific groups. In essence, credit unions have become trusted partners within their localities, thereby generating and sustaining a degree of moral legitimacy – societal approval of the organisation, based on the desirability of what it stands for. Of course, to do so, a credit union must also be economically viable.

However, as with all financial institutions, credit unions must operate within the terms of the financial regulations and laws imposed by the relevant authorities in the jurisdiction(s) in which they exist. These rules, regulations and laws provide the regulatory basis, under which credit unions are entitled to operate. Many of these rules and regulations presume that the societal legitimacy of financial institutions is transactional - i.e. their legitimacy is based on the provision of financial services at a price, such as an interest rate, to cover the risks of these transactions. Consequently, these rules and regulations aim to minimise these risks, and tend to ignore sources of legitimacy other than the pragmatic legitimacy of economic exchange.

While it is acknowledged that regulation is necessary, recently there is a perception that rules and regulations have increased to such an extent that many credit unions view them as overly restrictive. Consequently, based upon the time and effort required to satisfy the current reporting regime, many within the sector feel that credit unions may have lost sight of their moral legitimacy in their attempts to satisfy their regulatory legitimacy.

In an effort to rebalance their legitimacy, a small number of credit unions in Ireland and the United Kingdom have recently started to voluntarily report upon their social impact/value. This form of social value reporting is seen as an attempt by such credit unions to demonstrate their unique contribution to society in a form not currently being dominated by prevailing assumptions about the pragmatic and transactional basis for the existence of such financial firms. By interviewing in excess of twenty individuals with an interest in this sector, including credit union managers, a government minister, representative body officials and consultants, this report attempts to shed some light on the efforts of those in this area to bring greater attention to the moral legitimacy of the credit union movement.

Our findings suggest that current attempts to highlight the moral imperative of the credit union movement using social value reporting are primarily aimed at their members and society in general. However, by increasing awareness amongst this cohort, it is hoped that over time, others, including the political establishment and regulator, may recognise the unique social value/impact generated by the credit union movement, and may ultimately reconsider the regulatory requirements imposed on this sector.

1. Introduction

This research paper investigates the concept of "legitimacy" from management research in the context of the Irish credit union sector. Briefly, the concept of legitimacy can be defined as the approval of society for the actions of an entity[1] - credit unions in this research. While more detail is given in Section 2, legitimacy can be described as one of three types - pragmatic, moral and cognitive. Thus, for example, credit unions exist to a large extent on moral grounds, given their social and communal objectives and values, i.e. moral legitimacy is relevant.

Today, credit unions also need to pursue other forms of legitimacy, such as regulatory requirements (a form of pragmatic legitimacy). In the context of Irish credit unions, an outcome of regulation is the evaluation of credit unions against standardised financial/quantitative risk-based measures. Such regulation and evaluation, while important and necessary, may discourage credit unions from pursuing activities in line with their original purpose - in other words, impede their moral legitimacy. This may result in what is termed legitimacy conflict, which can be problematic for any organisation. For example, in a credit union, reduced or absent moral legitimacy may call into question the very reason for their existence. In response to what may be perceived as an overemphasis on regulatory legitimacy, some credit unions in Ireland and the United Kingdom (UK) have started to explore the reporting of their performance from a different angle, namely reporting their social value or social impact.

Therefore, and more specifically, the purpose of the work behind this research paper is to examine how Irish credit unions manage legitimacy conflict through the use of social value/impact reporting. Such reporting is of course supplementary to regulatory reporting but is also an attempt to rebalance what may be an overemphasis on regulatory legitimacy i.e., the need to report on and comply with mainly financially-oriented regulatory reporting. To do this, the study uses semi-structured interviews with credit union managers/staff, consultants and government (see Section 4) to gain views on 1) the regulatory environment in Ireland, and 2) how or if social value/impact reporting may make credit union activities more visible, and potentially improve their focus on social and communal objectives.

This paper is structured as follows. The next section explains the concept of organisational legitimacy and relates it to credit unions, and this is followed by examples of how some credit unions have started to report beyond typical financial and/or regulator-oriented reporting. The study methods are then detailed, before the paper outlines the perceptions of interviewees' concerning regulatory reporting within Irish credit unions along with the advantages and barriers associated with social impact reporting. The paper continues with suggestions for rebalancing credit union legitimacy before offering some conclusions and recommendations.

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[1] See Suchman, M.C. (1995), *Managing legitimacy: Strategic and institutional approaches*, Academy of Management Review 20, 571-610 for a detailed definition and discussion of legitimacy.

2. Organisational legitimacy and credit unions

'Legitimacy' and what it means for organisations

Organisations exist because they transform resources into products and services which are considered particularly desirable by specific groups in society. They thus exist in a symbiotic relationship with their stakeholders. These stakeholders provide resources for the organisation to operate, and in return, the organisation provides products and services for these stakeholders. This symbiotic relationship is the basis for their legitimacy in society. Legitimacy is not equal to the legality or constitutional standing of an organisation, but rather, it denotes the different kinds of support the organisation can receive from society. In this context, legitimacy is broadly defined as: "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed system of norms, beliefs and definitions"[2].

For some corporate organisations, legitimacy seems unproblematic to achieve: they draw on the resources provided by investors in the capital markets and they provide a return, often related to the risks they run. However, these organisations also rely on additional resources, such as labour, infrastructure and environmental pressures on a society. Again, they can retain their legitimacy and continue to do so, as long as they serve the interests of the relevant stakeholders; in these examples, trade unions, the government and environmental organisations afford the organisation with the right to operate. When the organisation does not sufficiently serve the interests of key stakeholders, it risks losing its licence to operate; i.e. the support of its stakeholders, who question the legitimacy of the organisation and its entitlements.

As noted in the Introduction, three particular types of legitimacy are typically distinguished. **Pragmatic legitimacy** is based on serving the calculated self-interest of an audience. The organisation enjoys societal support because it fulfils a material need for its constituents. For example, the operator of nuclear power plants enjoys pragmatic legitimacy, as it provides electricity at desirable rates. Second, **moral legitimacy** reflects a positive evaluation of the organisation based on the desirability of its outputs, its techniques, its procedures and the charisma of its leaders. An example is a nature conservation organisation, which may not provide specific tit-for-tat exchanges to individuals, but is desirable for its outputs nevertheless. Third, **cognitive legitimacy** is based on a match with wider cultural beliefs that the organisation acts in accordance with cultural norms and values. In this vein, cognitive legitimacy results from being in a position which is taken-for-granted in a society. For example, a tourism office is considered an integral part of the social fabric of many cities and villages and they rarely seem to be questioned. A fourth legitimacy type is regulatory legitimacy, which is a form of pragmatic legitimacy. Prior research has

[2] Suchman, M.C. (1995), ibid, p. 574.

classified it separately as it is likely to affect the legitimacy-seeking behaviour of banks[3]. In this vein, the basis of legitimacy is "legally sanctioned"[4].

One of the ways in which organisations seek to convince stakeholders to provide support is in the form of accounting information. Publicly listed organisations provide information about the economic benefits they provide — revenue, profit, possessions — to shareholders and other owners with the purpose of retaining, and where possible expanding, their support in the form of further investment. Not-for-profit organisations, such as hospitals and schools publish accounting information about their numbers of treatments and diplomas issued to demonstrate their societal relevance. Hence, accountability is closely related to legitimacy.

Various organisations rely on a dominant legitimacy type. For example, oil companies draw particularly on pragmatic legitimacy, based on economic calculation. Their exploration and exploitation of crucial natural resources in exchange for economic gain provides them with a powerful licence to operate, even as increasing numbers of stakeholders question their legitimacy from environmental and moral points-of-view. However, it can also be argued that many organisations have a need to balance the interests of different stakeholders and simultaneously draw on multiple types of legitimacy. In particular, organisations which appeal to diverse stakeholder logics informing their legitimacy judgments - so-called hybrid organisations - may struggle to appease these different stakeholders and the logics they draw upon to make their legitimacy judgments.

Legitimacy and credit unions

Currently, community finance organisations - such as credit unions and cooperative banks - find it increasingly difficult to attain sufficient societal support. Born out of a clear need for better access to capital markets by underprivileged societal groups, these organisations provided credit at terms which were initially not available elsewhere. Their basis for societal support was primarily pragmatic in nature. It constituted a basis of economic exchange - they offered credit at particularly low rates to groups which had limited access to financial services. In return, clients were members and unpaid officials of the organisation, enabling them to continue to provide particularly low rates. Collectively, the members agreed to bear the risks of default, thus also contributing to lower rates.

The Irish credit union movement - the main focus of this study - emerged during the 1950's, a time when employment opportunities were limited. This resulted in a plethora of social problems including inadequate housing, increased levels of sickness, hunger and poverty. Consequently there was a rise in both the number and popularity of unlicensed money lenders often charging exorbitant interest rates. Along with these restrictions on accessing finance on fair terms and conditions, a lack of basic financial

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[3] MacLean, T.L., Behnam, M. (2010), *The dangers of decoupling: The relationship between compliance programs, legitimacy perceptions, and institutionalized misconduct*, Academy of Management Journal 53, 1499–1520.

[4] Scott, W.R. (2014), *Institutions and Organizations – Ideas, Interests and Identities*, Sage: Thousand Oaks, p.60.

skills was identified as amongst the primary limitations impacting upon the general Irish population at that time. In an attempt to redress these issues, the first Irish community-based credit union was established in Donore Avenue, Dublin in 1958, and by 1960, a further five credit unions had followed suit. Thus, credit unions can be said to have moral legitimacy also, contributing to lower financial hardship in society.

The primary legislation underpinning the credit union movement in Ireland was enacted in 1966 and was subsequently amended in 1972. In the early 1960's the Irish League of Credit Unions (ILCU) was formed to represent the views of the sector. Following a period of rapid expansion over the following decades, the impact and influence of the credit union movement in Ireland appears to have reached a peak, when in 2008, it was reported that there were in excess of 520 credit unions operational, collectively serving nearly three million members[5]. Following a period of consolidation in recent years, the number of credit unions in the Republic of Ireland is now less than 250[6]. As of March 2021, some key statistics for credit unions on the island of Ireland represented by the ILCU are shown in Table 1.

Membership	3.6 million
Savings	€16.31 billion
Loans	€4.89 billion
Assets	€19.28 billion

Table 1 - Key Statistics - Irish Credit Unions March 2021 (ILCU[7])

Credit unions are and have been perceived as a key source of community finance, thus generating both pragmatic and moral legitimacy. However in recent decades, the pragmatic basis of the legitimacy of community finance has come under pressure. As financial markets have become increasingly efficient, access to finance by formerly disadvantaged groups has become easier and the costs of access are lower and more in line with the costs of community finance institutions[8]. This makes it more difficult for

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[5] https://www.creditunion.ie/about-credit-unions/history-of-credit-unions/.

[6] https://www.irishtimes.com/business/financial-services/number-of-credit-unions-falls-by-nearly-50-since-crash-1.4138600.

[7] https://www.creditunion.ie/about-credit-unions/key-statistics/.

[8] For example, Chatterji et al. (Chatterji A., Luo J. and Seamans R.C. (2015), *Banks vs. Credit Unions After the Financial Crisis*, Academy of Management Proceedings, no. 1) note that competition between credit unions and commercial banks can lead the latter to co-opt specific attributes of credit unions, which results in both categories becoming more alike. Moreover, Chan and Greenbaum (Chan Y-S., Greenbaum S.I. and Thakor A.V. (1986) *Information Reusability, Competition and Bank Asset Quality*, Journal of Banking & Finance 10, no. 2) argue that, in banking, increased competition is associated with reduced benefits of intimate knowledge about borrowers default risk, a hallmark feature of cooperative

community finance institutions to show societal contributions, which are based on economic exchanges of goods and services not available elsewhere. Consequently, community finance institutions (such as credit unions) are in search of performance metrics of a typically non-financial nature which better reflect their unique contributions to society that are often less visible than those achieved through economic exchanges.

3. Non-financial and social impact reporting by credit unions

Thus far, few credit unions have sought to measure and report upon their social impact[9], and amongst those who have, concerns around consistency and standardisation have been identified. Research conducted by McCarthy (2020)[10] among a small sample of credit unions based in the Republic of Ireland found that apart from a few exceptions, social value reporting within their annual reports was both sparse and unstructured. However, it was also reported that what was published in this regard was extremely beneficial to those credit unions, as it enabled them to highlight their significance to their local communities in a manner that they had previously been unable to articulate. The main reasons cited for the reluctance amongst this sample of Irish credit unions to engage in social value/impact reporting included insufficient: time, staff and confidence, along with a perception as to the significant costs involved.

Credit unions in Ireland and the UK are required to produce and publish annual reports outlining key aspects of their performance. These annual reports are primarily composed of financial information due mainly to the legal and regulatory requirements dictating the type and form of information to be included. Although there appears to be no restrictions on credit unions including non-financial information within these documents highlighting for example, particular elements of their social value, few, if any credit unions, seem to have availed of this opportunity. One good example is the Serve and Protect Credit Union[11] in the UK, which attracts members from the police, prison, military, fire and health services, who reported a series of financial and non-financial key performance indicators for the year to June 2021. Examples include: the number of loans issued, average customer call response time and net growth in membership. Many Irish credit unions publish some similar content within their annual reports, but these are generally not made available on their websites. Consistent with McCarthy's (2020) findings, our research shows that a lack of time, resources and

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and credit unions. Under these conditions, community finance institutions have fewer surpluses to redistribute amongst their stakeholders. By contrast, competitive disruptions may prove beneficial single-bond credit unions in particular (Chatterji A., Luo J. and Seamans R.C. (2021), *Categorical Competition in the Wake of Crisis: Banks vs. Credit Unions*, Organization Science 32, no. 3).

[9] We regard social impact reporting as externally oriented reporting which measures, evaluates or visualises the positive effects of an organisation's activities on society. It may include financial and non-financial information.

[10] McCarthy, O. (2020), *Credit Union Social Impact Measurement and Reporting: Realising the Potential*, Centre for Community Finance Europe, Dublin, Ireland

[11] https://serveandprotectcu.co.uk/wp-content/uploads/2021/07/SP_Impact_Report_2021.pdf.

know-how are amongst the reasons most often cited for not-doing so. However, there is also a simultaneous acknowledgement and frustration amongst the credit unions themselves that their continued failure to do so only exacerbates the fact that their whole story - including their social impact - remains untold.

At the time of writing, the sole credit union in the Republic of Ireland to commission and publish a social value report is the Dublin-based, Donore Credit Union, who did so in 2020[12]. According to their CEO, David McAuley, although they use accounting-based measures regularly to assess their financial performance, it was felt that their true value could only be determined when areas such as the strength of their relationship with members and the benefits they bring to their local community were also considered. Using Social Return on Investment (SROI) as their chosen metric, Donore independently determined that during the 2018/2019 financial year they generated a social dividend in excess of €25 million, and for every €1 invested into their credit union, €10 of social value was created. A small number of credit unions in the UK have also started to engage with social value reporting in an attempt to demonstrate their social value/impact to both their members and the wider communities that they serve. Examples include Clockwise Credit Union in Leicester[13], who reported that between 2018 and 2019, for every £1 invested in their local community, between £11 and £19 of value was created by them, and Hoot Credit Union in Bolton[14], who claimed that during the same time period they generated £9.5 million in social value. While measures such as SROI can be useful, and have a methodology for their calculation, issues remain with such techniques as the ultimate value is expressed in monetary terms and there can be disagreements about for example, assumptions made, numbers used, weightings and conclusions drawn.

As these limited examples illustrate, non-financial and social value/impact reporting by credit unions remains in its infancy. As this form of reporting is not mandatory, for those credit unions who either have or would like to engage in this process, there is currently no consensus as to the form and content that should be adopted[15]. Therefore, much work remains to be done.

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[12] https://www.donorecu.ie/social-return-on-investment.

[13] https://socialvalueuk.org/report/social-return-on-investment-evaluation-sroi-clockwise-credit-union/.

[14] https://www.wisewithmoney.org.uk/theowleffect/.

[15] See a methodology proposed by the Swoboda Research Centre here https://swobodacentre.org/wp-content/uploads/2019/06/Guide-to-the-Toolkit-on-Social-Impact-Measurement.pdf.

4. Methods

As outlined in the introduction, this research seeks to examine how Irish credit unions manage legitimacy conflict through the use of social value/impact reporting. This is achieved by means of interviews with persons involved with having knowledge of social value/impact reporting. A full list of interview details can be found in Appendix – List of Interviewees.

During the first half of 2021, we interviewed a total 25 people using the Zoom platform. The total interview time was just under 28 hours, giving an average interview time of just over one hour. The interviewees included credit union managers/chief executive officers (12), members of sector representative bodies (4), consultants (2), external auditors of credit unions (1), academics (2), advisors (3) and politicians (1). Each interview was recorded and transcribed initially using artificial intelligence. The transcriptions were then checked manually for correctness and completeness. Then, the transcripts were analysed manually to extract relevant themes and examples for use in this report.

The interview process captured the views of staff from 12 credit unions of varying size. They were geographically spread across mainly Ireland, but included two from Great Britain. We followed a snowballing approach, beginning the interview process with a credit union who had already published a social value report. This approach ensured we gained opinions of persons who had some knowledge of social value reporting. As each interview was completed, we asked the interviewee(s) for the names of persons whom we should contact. The process continued until we 1) found the same interviewee names recurred, and 2) achieved saturation in terms of the views presented to us.

A standard set of outline questions was developed and all interviewees were given outline questions in advance. The standard outline questions were asked of the majority of interviewees, the main exception being that regulatory questions were confined to Irish interviewees. Some questions were not posed depending on the interviewee type. As is normal in interview-based research, some new questions arose during the interview process as the views of interviewees were probed. The questions sought views on two key areas - the current regulatory and reporting environment of credit unions and social value/impact reporting. Given the nature of this research, we did not ask questions about specific social value/impact reporting tools or techniques. The questions on social value/impact reporting rather focused on seeking views on how this type of reporting may augment the moral legitimacy of credit unions.

The report presented here cannot claim to be representative of the views of all credit unions. It does however provide a sample of views of credit union managers and stakeholders. One stakeholder whose views are not captured here, but were sought, are those of the regulatory bodies. Given the objective of this research, this does not present major issues, but it is worth noting that some views on regulation were obtained from governmental interviewees (including advisors). With these limitations in mind, it is hoped that this report will broaden the thinking of credit union managers on social value/impact reporting, and indeed on non-financial reporting by credit unions in general.

5. Perceptions of regulatory reporting in Irish credit unions

We now detail perceptions of regulatory reporting in the context of Irish credit unions. This is a component of their regulatory legitimacy. As confirmed by interviewees, there are two main types of regulatory reporting in Irish credit unions.

Regulatory reporting – the annual report

The first is the annual report (including financial statements), which is required by general companies' legislation and credit union specific regulations. Most Irish credit unions are in essence private companies and thus are not required to publish their annual report (AR). Some do publish the AR publicly and most interviewees noted their credit union publish it on their website, typically requiring member login for access. The AR can be a tool to communicate more than financial performance, but our research suggests not all credit unions use it as such. For example, Interviewee G, a credit union manager noted that while their AR did report on some initiatives and outcomes, no coherent approach is apparent:

> *"We always publish in our annual report [...] where we would outline what we do in the promotion and development heading, like our scholarship, the initiatives of children and lots of credit unions do that. But it's not in any pulled together, coherent way. And it's not in any measured way. And it doesn't show anything over time."*

Interviewee P, a credit union CEO, while noting the rigid nature of the AR, did note some progressive reporting:

> *"Credit unions tend to be very rigid in their structure and approach the annual reports, I've seen some of the more progressive ones have done some really good stuff around blending what you have to have, from a regulatory point of view, and then adding, I suppose the far more palatable things that your average member is going to understand."*

Interviewee C, an audit firm partner with much experience of the credit union sector commented on how the AR, while serving a purpose does not reveal the underlying values of a credit union:

> *"The purpose of the annual report to me is to inform members of the financial position of the credit union with a whole load of detail and assurance provided by skilled people, etc, but to showcase the values of the organisation there isn't any agreed upon consistent platform to do this other than ad-hoc activities from the credit union."*

From the above, we tentatively suggest that the AR is used mainly in a traditional regulatory fashion in Irish credit unions. This is of course its key purpose, but as witnessed in the AR of public companies, the AR can be a useful communications medium filled with many non-regulatory aspects of an organisation's activities.

Regulatory reporting – quarterly returns

The second type of reporting is period reporting to the Registry of Credit Unions (RCU), which is part of the Central Bank of Ireland (CBoI). While not detailed here, this reporting type is extensive and is summarised in Table 2. Requirements like those shown in Table 2 can be considered as reflections of the minimum standards credit unions should maintain to retain societal support for their activities. Especially since

the financial crisis of 2008[16], these standards are predicated around the management of financial risks, as reflected in Table 2 below. Consequently, the right of credit unions to operate is based on pragmatic legitimacy - they need to demonstrate a low probability that they will pose a future financial burden on society, and in return, retain a licence to operate (quite literally from the CBoI).

Type	Key content
Prudential returns	Risk-based supervisory reports, using Probability Risk and Impact SysteM (PRISM$_{TM}$)
Year end	AGM notification, signed annual audited accounts, year end return, annual compliance statement
Fitness & probity	Reporting on regulatory compliance around key roles and functions
Outsourcing and credit register information	Notifications of outsourcing or material changes to service providers; personal and credit information on loans to Central Credit Register.

Table 2 - reporting by Irish credit unions to RCU/CBoI

In general, the perceptions among interviewees on regulatory reporting was to acknowledge the pragmatic need for regulatory reporting, while emphasising its financial and possibly burdensome nature. Table 3 provides some example quotes from interviewees.

[16] The greater emphasis on risk-based reporting is evident in the underlying legislation in Ireland. The Credit Union Act 1966 does not mention "risk" at all, the Credit Union Act 1997 mentions "risk" once, with the Credit Union and Co-operation with Overseas Regulators Act 2012 mentioning "risk" 67 times.

Interviewee, role	Comment
Interviewee D, CU CEO	*“The primary focus [of] the regulator is on financial performance.”*
Interviewee E, CU CEO	*“I'm not too hung up [...] some credit unions say ‘the regulatory compliance, we’re overburdened’. It's there for a reason. There’s nothing in it that we shouldn’t have been doing anyway. So it’s there, embrace it, move on.”*
Interviewee F, Representative Body.	*“The regulator’s name is the Central Bank of Ireland. Are they really the right, like even that name, you know, they're very much for banking culture.”*
Interviewee H, Representative Body.	*“So, they [CBoI] are talking about things like governance risk, credit risk and the key ones to the credit union. And if you think about it, the financials are kind of telling you, the results of historic behaviour [...]. It’s [also] an enabler or predictive of what the likely outcome financial outcomes will be. So, I think what they're doing in the context of their legal obligations makes sense.”*
Interviewee M, CU CEO	*“It’s not really been tabulated or actually quantified, the amount [of] time and resourcing that credit unions have to devote to the whole regulatory piece.”*
Interviewee W, CU CEO	*“The central bank are the archetypal, bottom line people. That is their mandate, their mandate is financial stability.”*

Table 3 - sample interviewee comments on reporting to RCU/CBoI

6. Perceived advantages and barriers of social impact reporting

In response to the perception of an over-financialised regulatory reporting regime, a small number of credit unions in Ireland and the UK have proactively engaged in social impact reporting. As we will see in the next section, such reporting may be useful to improve the moral legitimacy of credit unions. Before exploring however, it is useful to highlight the potential advantages and barriers of such reporting based on interviewee responses.

To begin, according to interviewee A, the CEO of a UK-based credit union who engaged in social impact reporting, it enabled them to articulate what they do, and how that can potentially benefit their local community:

"It is what we're about and who we are [...] I was in a network cohort recently, of local business leaders. And nobody really could understand what we did. And then I just started rattling off some of the stuff that's in that social impact report. And then they were going, wow, you guys are brilliant. How come I've never heard of you? And you know, you're doing such good, you know, and it's a shame that people don't know more about you."

Alternatively, interviewee G, the Manager of an Irish-based credit union suggested that social value reporting could be used to influence the political establishment to ensure that the regulations governing the credit union movement are more suitable:

"But it also has to work on the political sphere as well. It has to be the ammunition with which we go and say, we're not a bank. We're not asking to be treated with kid gloves. We're asking to be treated and to be regulated in a way that's appropriate to this entity."

A contrasting view was expressed by interviewee B, a Government Advisor, who felt that rather than attempting to influence the regulator, the real benefit from social impact reporting could lie in the ability of credit unions to use them to apply for funding from particular Government departments to increase their activity levels. The following hypothetical example was provided:

"[The] Department of Rural Affairs have lots of funding projects for rural community issues, the social impact reporting might be able to show we've had an impact on these types of things that you're also interested in, and therefore it helps with getting maybe government funding to do something in relation to a community project."

Similarly, according to interviewee J, a consultant, social impact reporting could result in increased business activity for credit unions in areas such as lending, the lack of which has been a major financial constraint across the sector recently:

"I think a big one would be [...] people actually borrowing so if they're looking at two loans or where they would go, I think that [an] understanding on the social value could tip people."

It was also suggested that the process of engaging in social impact reporting could enable credit unions to identify aspects of their performance that could be subsequently improved upon to the benefit of their members. According to a spokesperson from a Representative Body (interviewee F):

"[...] it probably gives you the opportunity to improve your performance, as you see gaps, you think, right, I need to maybe improve on that."

This view was also articulated by Interviewee S, the CEO from another Representative Body:

"I think the social value piece will also challenge potential levels of complacency or challenge people who think, 'I've always done it that way. Well, actually, why?' Because it doesn't need to be that way. That's been a huge barrier for the credit union sector's growth."

In terms of the potential barriers to social impact reporting, the main ones suggested by our interviewees include concerns surrounding the accuracy of the information

contained within the reports, a lack of resources, over-claiming benefits, ease of use, etc. Table 4 below provides examples of quotes on some of these perceived issues.

Interviewee, role	**Comment**
Interviewee B, Government Advisor	*“If it's not credible, then somebody's going to say that's not believable. So [a] credible process [is needed], the same way you would report data in financial statements, you know what the basis of it is, and you do it the same way every three months, or every month, and you report it every year, in the same way.”*
Interviewee C, Partner Audit Firm	*“I think the only downside is that people won’t participate in it, or it [will be] seen to be more work or more pressure.”*
Interviewee J, Consultant	*“Over-claiming and claiming too much. I mean, over claiming in terms of quantum and [...] also being all things to all people. I think you're far more credible if you picked two or three pieces in terms of what impact [you] make on the ground.”*
Interviewee O, Academic	*“The regulator doesn't look for a social impact, therefore, that's why we're not focusing on it. You know, if the regulator says we have to do it, we’d do it.”*
Interviewee P, CEO CU	*“We’re so bogged down with financial reporting and risk reporting and internal audit and compliance and money laundering. It, you know, it would make your head spin, we've completely forgotten about the social value, and values in general.”*
Interviewee Q, Representative Body	*“One of the risks will be that you’ll get 20 credit unions interested [but] no one else. [...] I think if there was a formula that could be come up with that credit unions could plug into fairly easy to calculate their social return on investment very easily. I think that's the key, you know, because then it’s not onerous on them, it’s not going to cost them a fortune.”*

Table 4 - sample interviewee comments on barriers to social impact reporting

In summary, the perceived need to engage in social impact reporting by credit unions can be understood as a need to generate greater visibility for their moral imperative. In other words, various respondents considered social impact reporting as a good way to generate moral legitimacy – societal approval based on the morality of its actions. The generation of this type of legitimacy was considered highly praiseworthy and

various interviewees believed that such reporting could offset some of the risk-orientation that dominates the legitimacy evaluations of financial institutions. However, the gap between the moral legitimacy claims by credit unions and the financial risk-based pragmatic legitimacy requirements in wider Irish society do not match. As the next section highlights, it is this mismatch that puts specific demands on the content and use of the social impact reports that credit unions seek to publish.

7. Rebalancing credit union legitimacy

We now bring together the views of interviewees on social value reporting and highlight an apparent legitimacy conflict. Overcoming this legitimacy conflict may help promote the *raison d'être* of Irish credit unions and help plan for their future.

As mentioned earlier, the regulatory environment for Irish credit unions has changed considerably since 1966, with the 2012 Act putting a much greater emphasis on risk. Interviewee comments support this (see Table 4). Currently, regulatory legitimacy is one source of (pragmatic) legitimacy. In the case of Irish credit unions, this is in the form of the various laws governing credit unions and the regulations of the CBoI. Put another way, political, legal and regulatory institutions (i.e., government, laws and the CBoI) confer legitimacy on credit unions as they are viewed as pragmatic in that they can provide credit at terms which (at least historically) were not available elsewhere. The presumptions underlying these rules and regulations are not very different from those that apply to other financial institutions. These presumptions are mostly that activities in the financial sector are based on a pragmatic legitimacy of exchange, and the regulators' roles are to supervise transactions with excessive risks.

As revealed by our interviewees and given the co-operative nature and origins of credit unions, the operation of credit unions also encapsulates a social and moral perspective. They are not profit driven, they provide varying services to their members (as savers and borrowers) and they are respected as a part of the community in which they operate. Thus, credit unions also have credible claims on moral legitimacy in that they provide desirable outputs to their members and the community in general and are thus typically evaluated as a positive entity. However, while the financial "outputs" of a credit union are regularly measured and approved by regulators and thus gain regulatory legitimacy, the social or non-financial "outputs" are not. As conveyed by the interviewees, there is an interest in such reporting to members and the broader community in which credit unions operate. This, we suggest, can be portrayed as a need for the two main legitimacy forms to be more balanced.

We depict the preceding discussions graphically in Figure 1. In essence, our interviewees by and large suggest a view that credit unions in an Irish context may be over-regulated with too much focus on financial data and risk measurement. Thus, as depicted by the lightning bolt, credit unions are in a legitimacy conflict with the institutions who confer regulatory legitimacy on them. Similarly, these same institutions seem to be less concerned (or possibly unconcerned) with credit unions providing non-financial outputs or social impact to members and the community - depicted by a second lightning bolt. Thus, credit unions seem to be turning to other methods to seek out moral legitimacy i.e. forms of social impact reporting as suggested (and in some

cases implemented) by our interviewees. These are, in our view, efforts by credit unions to re-balance their moral legitimacy somewhat. This re-balancing is aimed at members and society in general, and over time, may come to be considered by the regulatory institutions.

Figure 1 also illustrates how credit unions may be unintentionally complicit in sustaining the aforementioned legitimacy conflict. The mere 'financialising' of social contributions may appease the emphasis on financial/risk-based reporting, but such strategy ignores the more fundamental question if moral legitimacy is a sufficient basis for credit unions to survive in a globalising world where the value of doing good is not always recognised – even in financial terms. For example, it was noted earlier how measures such as SROI derive a monetary value, but such values can be questionable. Our study therefore also suggests that credit unions may use their social reporting initiatives not only to 'financialise' their social contributions (moral legitimacy), but also to tap into pragmatic legitimacy, which seems to dominate the financial services industries. As an example, credit unions could not only quantify their contribution to the reduction of local economic inequalities between citizens - which would be a measure of their moral legitimacy - but also the direct and indirect benefits of these actions (i.e., reductions of costs of shelters, benefits of higher political stability, and even higher tax revenues due to increasing local welfare). In this vein, social value reporting not only quantifies moral legitimacy, but it also generates a transactional evaluation, which is more compatible with current regulations' emphasis on pragmatic legitimacy, whilst continuing to do justice to the social and moral imperative of the credit union.

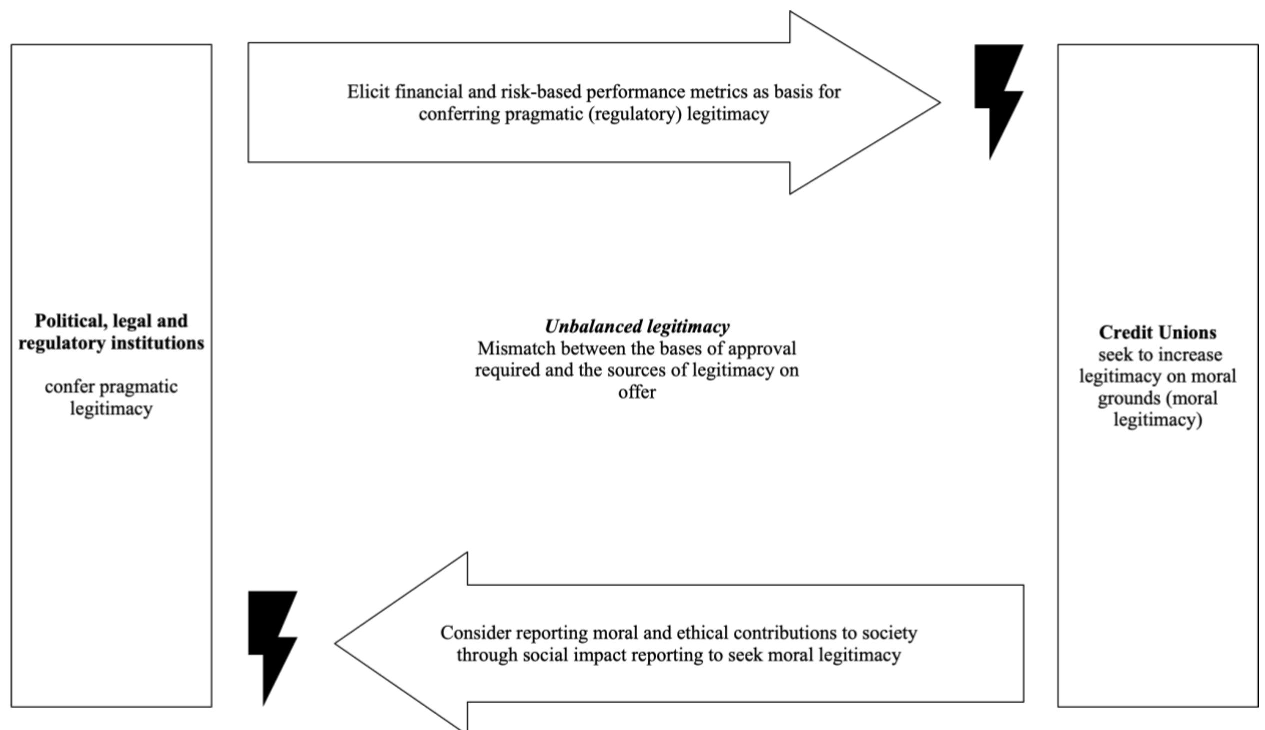

Figure 1 - legitimacy conflict in Irish credit unions

8. Conclusions and recommendations

To summarise thus far, our research suggests there is an appetite for some form of social impact/social value reporting amongst Irish credit unions. There are some barriers as suggested by interviewees and there is likely no one size fits all solution nor one standard set of items to be reported upon. These should not however prevent credit unions from making attempts to trial, develop and refine reporting which may be suited to their needs. In this vein, we offer some recommendations based on our background knowledge of non-financial reporting and the research presented here.

McCarthy (2020, p.23) suggested “credit unions need to take some time [...] to tease out why they want to engage in social impact measurement and reporting”. Based on our analysis, it is first and foremost recommended that credit unions consider themselves as being legitimised from a regulatory view and a moral view, and presently these two forms seem out of balance (we do not imply they should be equal). Change to the perceived over-burdening present regulation may or may not happen, and if it does it will take much political effort. While such change may be an ultimate goal, addressing moral legitimacy through reporting on the social impact generated by credit unions is something which can be achieved in a shorter timeframe without any input from regulators. Indeed, some interviewees noted that they may already capture items which could be reported upon as part of their strategic planning process, but have not considered actually reporting on them. Such reporting, we suggest, will go some way to showing society that credit unions do produce desirable “outputs” and thus deserve to be viewed as having a moral legitimacy.

McCarthy (2020) also suggested that credit unions needed support in the form of templates and outside assistance to engage in social impact reporting. Based on our research, we would similarly recommend this. McCarthy (2020) also suggested that a small number of credit unions doing such reporting is not overly useful. We concur, but we would also suggest that the credit union movement (i.e. all credit unions, all representative bodies, all service organisations) acting in unison are likely to generate a powerful sense of moral legitimacy in Irish society. This, in time, could be a powerful element toward regaining some of the balance between moral and regulatory legitimacy.

A point raised by our interviewees and also noted by McCarthy (2020) is that measuring items of social impact/value can be difficult. We agree, but it is recommended that this should not be a discouragement. A key focus should be consistency in the methods used to ascertain the items reported. This allows for comparisons over time.

Finally, interviewee J noted “I think you're far more credible if you picked two or three pieces in terms of what impact [you] make on the ground” - see Table 4. Academic research on the reporting of non-financial metrics supports this, and has noted that organisations often attempt to measure too much and that the measures are not linked to strategy. Thus, it is suggested that any credit union embarking on social impact reporting be cognisant of not having too many measures and ensuring that the measures can be linked to strategic aims.

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Appendix – List of Interviewees

Role/Organisation type	Identifier	Duration (Hrs)
CU CEO	A	0.98
Advisor, Government	B	1.35
Partner, Audit firm	C	1.15
CU CEO	D	1.78
CU CEO	E*	
Financial Controller, Rep Body	F	0.90
CU Manager	G	0.87
CEO, Rep Body	H	1.77
CU Manager	I	1.12
Consultant	J	0.95
CU, Business Development	K*	1.15
CU CEO	L	1.20
CU CEO	M	1.18
CU CEO	N	1.03
Academic	O	1.37
CU CEO	P	1.28
Head of Communications, Rep Body	Q	1.32
CU Director/Academic	R	1.42
CU CEO	S	1.02
Consultant	T	1.03
Government Minister	U	0.92
CU CEO	V	1.32
CU CEO	W	1.43
Senior Business Advisor, Rep Body	X	1.22
Total time		27.75

*Participant E was interviewed together with Participant K.

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- **Community Credit Union**, Ireland
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- **Donore CU**, Ireland
- **Dragonsavers CU**, Wales
- **First Rate CU**, England
- **Great Western CU**, England
- **Heritage CU**, Ireland
- **Hoot CU**, England
- **Just CU**, England
- **London Mutual CU***, England
- **Manchester CU**, England
- **Member First CU***, Ireland
- **Metro Moneywise CU**, England
- **Naomh Breandán CU**, Ireland
- **Palmerstown CU**, Ireland
- **Partners CU**, England
- **Penny Post CU**, England
- **St. Anthony's & Claddagh CU***, Ireland
- **St. Jarlath's CU***, Ireland
- **Salford CU**, England
- **Saveeasy CU**, Wales
- **Smart Money Cymru CU**, Wales
- **South Manchester CU**, England
- **Unify CU**, England
- **Youghal CU**, Ireland

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