

ACCOUNTABILITY AND MORAL HAZARD RISK IN SAVINGS AND LOAN COOPERATIVES

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Abstract

This study aims to understand the meaning of accountability and moral hazard in the management practices of credit unions. A qualitative approach using the case study method was employed to explore the subjective experiences of credit union board members, supervisors, and members regarding responsibility, transparency, and potential instances of misconduct. Data were collected through in-depth interviews, observations, and document analysis, and were then analyzed using a process of meaning reduction to capture the essence of the phenomena. The research results indicate that accountability is understood not only as an administrative obligation but also as a form of moral responsibility among members. Moral hazard risks arise due to weak supervision, low information transparency, and a lack of ethical awareness among members. These findings underscore the importance of strengthening a culture of accountability to minimize the potential for moral hazard within the cooperative.

Keywords: Accountability, Credit Unions, Governance, Moral Hazard, and Trust

INTRODUCTION

Cooperatives are business entities operating in the economic sector, whether government-owned or privately owned. As economic institutions oriented toward the welfare of their members, cooperatives have great potential in poverty alleviation efforts. Given their strategic role in improving people's standard of living, cooperatives are legally protected by law and receive government support in their development (Paulus, 2024).

Pursuant to No. 25 of 1992, Article 3 on the Objectives of Cooperatives, 1992 states that "The objective of a cooperative is to promote the welfare of its members in particular and society in general, as well as to contribute to the development of the national economic system in order to realize a progressive, just, and prosperous society based on Pancasila and the 1945 Constitution."

In line with its function as a means of improving socioeconomic welfare, enhancing the quality of life for individuals and society, strengthening the national economy, and striving to realize and develop the national economy based on the principle of solidarity (Rahayu & Utama, 2020). However, in practice, there are still a number of cooperatives facing serious issues regarding the management of member funds, transparency in financial reporting, and the accountability of management. This situation raises questions about the extent to which accountability principles are truly implemented in the management of credit unions.

In the context of credit unions, accountability is also inextricably linked to the implementation of the principles of good corporate governance (GCG). According to Putri & Januarti (2022), the implementation of good governance in cooperatives is a form of organizational control that ensures transparency of information, accountability of management, and oversight by members as the primary owners of the institution. With good governance in place, financial

reporting and decision-making within the cooperative become more transparent, thereby minimizing the risks of abuse of authority and moral hazard.

One of the issues that frequently arises in cooperative management is moral hazard, which refers to behavior characterized by intentionality or a lack of accountability for one's actions (Lestari, 2019). Moral hazard behavior exhibited by both management and members can be observed in deliberate misconduct such as granting loans without proper feasibility analysis, using cooperative funds for personal gain, and non-transparent financial reporting. This phenomenon reflects the low level of managerial accountability in a number of cooperatives. The existence of moral hazard not only has a negative impact on cooperative performance but also has the potential to erode the trust of members as the primary owners of the institution.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Credit unions are a type of cooperative that operates in the financial services sector and is highly vulnerable to moral hazard. According to Paulus (2024), these institutions collect funds from members in the form of deposits and channel them back through loan facilities, in accordance with the provisions set forth in the cooperative's Articles of Association (AD) and Bylaws (ART). These provisions in the Articles of Association and Bylaws cover various important aspects, such as the types and mechanisms of savings, the setting of interest rates, procedures for withdrawing funds, and loan disbursement procedures. In practice, savings and loan activities require good governance and the consistent application of accountability principles to prevent financial mismanagement.

The credit management process in a credit union involves several key stages: administration, analysis, and credit monitoring. The administration stage involves recording, categorizing, and archiving all documents related to credit agreements, financial transactions, collateral, and borrower identification. The credit analysis stage aims to assess the capacity, character, and integrity of prospective borrowers through an evaluation of administrative documents and their track record in credit activities. The monitoring stage plays a crucial role in ensuring that loan funds are used in accordance with the established objectives and are targeted appropriately (Paulus, 2024). Weaknesses in any of these stages can lead to potential deviations and increase the risk of moral hazard (Susanti & Masripah, 2022).

Therefore, the application of accountability principles in every financial management process is an essential element in minimizing the risk of moral hazard. Strengthening internal oversight systems, increasing transparency in financial administration, and fostering a culture of accountability among board members and members are strategic steps to maintain the credibility and sustainability of credit unions as community economic institutions of integrity.

Various previous studies have emphasized the importance of applying the principles of good governance and transparency in cooperative activities. However, most of these studies are quantitatively oriented, focusing on aspects of accountability measurement and financial performance analysis. This study attempts to explore in depth the meaning of accountability and moral hazard from the perspective of the subjective experiences of cooperative actors, which are still relatively limited. Therefore, this study adopts a case study approach to comprehensively explore how cooperative managers, supervisors, and members understand and interpret responsibilities and potential deviations (moral hazard) in the dynamics of daily cooperative management.

Based on the results of a study conducted by Agustianto & Alfafa (2022), the causes of moral hazard in microfinance institutions fall into two categories: internal and external factors. Internal factors include weak supervision and uncertainty in assessing member eligibility, while external factors stem from members' deliberate misconduct, such as using loan funds for purposes other than intended and evading repayment obligations. Distinguishing between these two factors is crucial because it helps clarify that moral hazard is not merely the result of individual errors but

also stems from systemic weaknesses and the suboptimal organizational structure of cooperatives in exercising control and providing guidance.

This study has three main objectives. First, to explore and understand the meaning of accountability as manifested in the management practices of credit unions. Second, to identify the forms and contributing factors of moral hazard based on the experiences of cooperative stakeholders. Third, to explain the relationship between the interpretation of accountability and the potential for moral hazard to arise in the context of cooperative management. Thus, this study not only focuses on the formal aspects of accounting practices but also seeks to interpret the moral values, ethics, and trust that form the foundation of cooperative culture.

This study is expected to make a theoretical contribution to the development of research on social accountability and moral hazard risks in the credit union sector, particularly through the application of a case study approach, which is still relatively rarely used in similar studies. From a practical perspective, the results of this study are expected to provide recommendations for management and internal oversight, as well as for the implementation of organizational ethics. Some of the previous studies referenced include those by Savira & Januarti (2020), who examined the accountability of credit unions in Central Java; Maulida & Thabrani (2015), who analyzed moral hazard in Islamic cooperative financing; and Sumarwan et al. (2021), who highlighted member accountability in credit unions.

RESEARCH METHODS

This study employs a qualitative approach using the case study method, which focuses on understanding the subjective experiences and meanings constructed by the informants regarding accountability practices and moral hazard in the context of credit unions. The case study approach was chosen because it allows the researcher to explore in depth how cooperative administrators and members interpret the actions, responsibilities, and moral and ethical dynamics that arise in the savings and loan process. Through this approach, the study not only seeks to describe the empirical phenomena visible on the surface but also to uncover the essence of the informants' social experiences and reflective consciousness.

This study utilizes primary data obtained from in-depth interviews with informants, consisting of two cooperative members, two board members, and one supervisor directly involved in savings and loan activities. Through these interviews, the author seeks to explore in depth the informants' subjective experiences, perspectives, and interpretations regarding accountability practices and the phenomenon of moral hazard within the cooperative.

The subject of this study is the phenomenon of accountability and moral hazard in credit unions, with a focus on how members and board members interpret and fulfill their moral responsibilities in the credit union's financial activities. This study was conducted at a credit union in Ciamis Regency that has been operating for more than five years and maintains active loan and savings programs. To ensure confidentiality and adhere to research ethics, the names of the credit union and informants have been anonymized. There were five informants in this study, consisting of two cooperative members, two board members, and one supervisor. Informants were selected purposively, based on the consideration that they possessed knowledge, experience, and direct involvement in savings and loan activities, thereby enabling them to provide in-depth insights into accountability practices and the potential for moral hazard within the cooperative.

The data collection methods used in this study consist of two techniques: interviews and documentation. The interview method is a process of obtaining information for research purposes through a question-and-answer session conducted face-to-face between the interviewer and the respondent, with or without. This study employed an informal conversation-style interview. The conduct of the interviews and the sequencing of questions were adapted to the students' circumstances, thus relying on their spontaneity in posing questions to the interviewees (Bungin, 2001:133).

According to Arikunto (2002), documentation is the collection of data regarding certain matters or variables in the form of records, transcripts, books, newspapers, magazines, inscriptions, meeting minutes, ledgers, agendas, and so on. In this study, the researcher obtained data by collecting written materials related to the research problem, either by reading letters or by reviewing literature from books related to the research subject. In this study, the documents examined to support the interview results were the financial reports of the credit union.

According to Moelong (2018), data analysis is the process of arranging data in sequence, organizing it into patterns, categories, and a basic description so that themes can be identified and working hypotheses can be formulated. After the data has been collected, the researcher analyzes it using the Miles and Huberman (1994) model, which consists of data reduction, data presentation, and conclusions.

In this study, the data analysis process was conducted in three stages: data reduction, data presentation, and drawing conclusions (verification). The first stage, data reduction, involved selecting, summarizing, and focusing the interview data to concentrate on issues relevant to accountability and moral hazard risks in credit unions. At this stage, the researcher identified key themes such as the forms of responsibility of the board and members regarding financial obligations, perceptions of transparency in fund management, and factors that could potentially lead to moral hazard.

The second stage, data presentation, involves organizing the findings of the data reduction into a systematic narrative to illustrate the relationships between categories and the behavioral patterns emerging from the informants' experiences. Through this data presentation, the researcher gains a more comprehensive understanding of the social and organizational context of the cooperative and designs the next steps in the analysis based on the meanings identified.

The third stage, drawing conclusions or verification, involves the process of interpreting data in depth to gain new insights into the nature of accountability and the dynamics of moral hazard within credit unions. The conclusions obtained through a reflective process are continuously verified with field data, so that the research results depict the essence of the informants' experiences regarding responsibility, compliance, and potential deviations that arise in the practice of cooperative financial management.

RESULTS AND DISCUSSION

This study aims to gain an in-depth understanding of how the concepts of accountability and moral hazard are perceived by board members and members in the practice of credit unions. Based on interview results and phenomenological thematic analysis, five main themes emerged that illustrate the dynamics of accountability, trust, moral hazard, and expectations regarding cooperative governance. The following is a comprehensive overview of the results and discussion.

Accountability in Cooperative Fund Management

The results of this study indicate that cooperative board members and members understand accountability as a form of moral and administrative responsibility in managing savings and loan funds. Accountability is defined not only as a financial reporting obligation but also as a commitment to maintaining trust and transparency between the board and the members. The board strives to maintain members' trust through transparent reporting and accountability in every transaction. However, some board members also acknowledge challenges in implementation, primarily due to time constraints and limited human resources.

Table 1. Informants' Perceptions of Management Responsibilities for Cooperative Funds

No	Informants'	Statement Quote	Meaning/Core of
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			Findings
1	Board Member 1	"We strive to ensure that members' funds are secure and used in accordance with the rules established beforehand. All financial reports are distributed to the members during meetings"	Emphasis on fund security and formal reporting
2	Board Member 2	"Sometimes it's difficult to keep track of all transactions because there are quite a lot of members, and there are only a few of us on the board"	Limited oversight and resources
3	Supervisor	"The responsibility of the board members is to be transparent about finances; there should be no cover-ups. That way, we as supervisors can stay informed and ensure everything is done according to the rules."	Importance of transparency and control
4	Member 1	"For me, the board's responsibility is to be transparent about finances—it shouldn't just be mentioned during meetings, but also explained so members can understand."	Need for communication and member understanding
5	Member 2	"In my opinion, the board must manage members' funds properly, ensuring they aren't misused, and if there are reports, they must be clear so we can trust them."	Trust based on clarity of information

These findings indicate that cooperative accountability depends not only on administrative systems but also on the moral consciousness of the board members and the active participation of members. This aligns with the view expressed by Mardiasmo (2018), who states that accountability requires transparency, openness, and honesty as the foundation of public responsibility. This phenomenon in cooperatives indicates that social values and ethics play a crucial role in maintaining members' trust.

Field observations indicate that the financial reporting process in cooperatives remains largely a formality and has not yet fully become a learning tool for members. Many members attend annual meetings merely as passive listeners without truly understanding the content of the reports. This highlights the need for an educational approach in every reporting process so that members not only know the numbers but also understand the meaning of accountability in the context of shared responsibility. Actively involving members in understanding the reports can strengthen collective awareness of the importance of transparency and moral responsibility.

From a phenomenological perspective, the meaning of accountability that emerges from the informants' experiences indicates a connection between *moral awareness* and *collective responsibility*. Accountability is not only measured by the completeness of financial reports but also by the willingness of the board to act honestly, openly, and fairly in managing shared funds. This process illustrates that accountability is a reflection of moral values, not merely an administrative procedure. Thus, transparency accompanied by ethical understanding can strengthen members' trust in the cooperative and foster long-term loyalty.

The Dynamics of Trust and Honesty

Trust emerges as a central element in the relationship between the board and the members of a cooperative. Informants, both board members and members, believe that the cooperative's sustainability is largely determined by honesty and transparency in financial management. This aligns with Putnam's (1993) concept of *social capital*, which explains that trust is a form of social capital that can strengthen cooperation and collective responsibility. The board members feel that

maintaining members' trust is their primary duty, while members view the board's transparency as a measure of honesty and professionalism.

In the findings of this study, trust emerged as the element most vulnerable to disruption when financial reporting delays, recording errors, or members' loan defaults occur. When transparency declines, suspicion arises and confidence in the integrity of the management diminishes. In this context, trust and accountability reinforce one another: the more open and accountable the management is, the stronger the members' trust; conversely, a lack of transparency opens the door to moral hazard.

Table 2. Challenges in Maintaining Honesty and Trust in Cooperatives

No	Informants'	Statement Quote	Meaning/Core of Findings
1	Board Member 1	"We strive to maintain trust by always being transparent in our reports and communication"	Collective problem solving
2	Board Member 2	"If there are financial issues, we resolve them together to avoid misunderstandings"	Efforts to maintain trust through transparency
3	Supervisor	"From my perspective, the challenge is ensuring that everything remains open and honest, both from the board and the members, because even a little lack of transparency can cause trust to plummet immediately."	Trust sensitivity to transparency
4	Member 1	"In my opinion, the challenge is when there are members who aren't honest or pay late, which can make others doubtful and erode trust a bit."	Impact of member behavior on trust
5	Member 2	"Sometimes it's hard to maintain trust when information from the board isn't clear, so members tend to wonder about things on their own."	Lack of clear information reduces trust

These findings align with Putnam's (1993) concept of *social capital*, which posits that trust can strengthen cooperation and collective responsibility. However, trust is also fragile; when reports are delayed or irregularities are suspected, trust is easily undermined and dampens members' enthusiasm for participation. Therefore, honesty and transparency are at the core of cooperative accountability.

Trust serves as the social glue that sustains interpersonal relationships within a cooperative. When the board acts openly and communicatively, a sense of security develops among the members. However, if there is a lack of transparency or delays in reporting, suspicion can grow and lead to hidden conflicts. Therefore, maintaining trust is not only the responsibility of the board, but also of the members, who must actively monitor and participate in the cooperative's activities. The stronger the two-way communication, the smaller the chance of misunderstandings and a decline in trust.

From a case study perspective, trust is understood not only as a rational belief in the cooperative system, but also as an emotional and social experience between the board and the members. Honesty serves as a form of moral expression that fosters a sense of security and solidarity among members. When trust is disrupted, it is not only the cooperative's credibility that weakens, but also the social bonds underpinning relationships among members. Therefore, strengthening trust means strengthening the cooperative's capital structure itself.

Moral Hazard Risks in Savings and Loan Activities

Research findings indicate the potential for moral hazard among cooperative members,

particularly when the loans granted exceed their savings. Some members view the cooperative as a “safe” institution because the funds are considered communal property, leading them to sometimes neglect their responsibility to repay loans. This attitude reflects a deviation from the value of moral responsibility, which, if left unchecked, can result in collective losses.

According to Dini & Julianti (2022), from an institutional perspective, moral hazard arises due to information *asymmetry* between management and members, as well as weak internal oversight mechanisms. Moral hazard often emerges when oversight systems and social responsibility do not go hand in hand. In the context of cooperatives, oversight based on the values of mutual aid and active member participation serves as a key strategy to mitigate moral hazard and maintain institutional stability.

Table 3. Causes of Members’ Indiscipline in Loan Payments

No	Informants’	Statement Quote	Meaning/Core of Findings
1	Board Member 1	“Usually because the members are facing economic difficulties, so they delay their payments. But there are also those who are simply undisciplined, because they feel that the cooperative belongs to everyone, so they aren’t too worried about being late.”	Economic factors and the perception of “shared money”
2	Board Member 2	“In my opinion, aside from economic factors, it’s sometimes due to a lack of responsibility among members. Some feel that the loan isn’t urgent enough to be paid on time.”	Low awareness of responsibility
3	Supervisor	“In my opinion, aside from economic factors, it’s also because supervision isn’t yet optimal. So there are members who feel they can still delay payments without any immediate consequences.”	Weak supervision and control
4	Member 1	“There are also those who are actually capable but just keep putting it off—perhaps because they feel there are no strict penalties, so they don’t give it much thought.”	Weak sanctions and discipline
5	Member 2	“From what I’ve observed, it’s usually because household expenses are high, so they prioritize other needs over paying back the loan.”	Household economic priorities

This phenomenon indicates the emergence of moral hazard—that is, deviant behavior resulting from weak oversight and a lack of awareness of responsibility. Moral hazard arises due to *asymmetric information*, where one party possesses more information and there is no balanced oversight. In the context of cooperatives, weak internal controls and a lack of collective responsibility are the primary factors triggering moral hazard. Thus, moral hazard in cooperatives is not only caused by economic factors but also by social and moral factors, such as members’ uneven sense of ownership and discipline.

This phenomenon demonstrates that moral hazard arises not only from economic factors but also from a lack of shared awareness of the value of collective responsibility. Some members view the cooperative as a social institution that can be tolerated when payment delays occur. In fact, such behavior erodes trust among members and weakens the cooperative’s position. The board plays a crucial role in re-instilling the values of discipline and responsibility, not only through rules but also through persuasive and educational approaches.

Based on a case study approach, moral hazard is understood as a failure to internalize the value of social responsibility. Members who view the cooperative as “shared money” actually demonstrate a weak moral identity as part of the community. In this context, formal oversight will not be effective without strengthening moral values and *a sense of belonging*. Therefore, the impact of moral hazard must be addressed through education on values and a culture of discipline, not merely through administrative sanctions.

Expectations for Governance and Member Development

Informants hope that the cooperative can strengthen its oversight system and foster open, disciplined, and mutually trusting communication between the board and members. The board believes there is a need for guidance and training from the relevant government agency or supervisory body, while members hope for greater transparency and stricter discipline in managing members’ rights and obligations.

These findings indicate that cooperative governance cannot rely solely on administrative procedures; it must also strengthen collective awareness of the importance of moral and social responsibility. Accountability and integrity are not merely the obligations of the board of directors, but shared values that must be understood by all members. Thus, cooperatives can develop into institutions that not only serve an economic function but also play a role in building the character and social ethics of their members.

Table 4. Informants’ Expectations regarding Improvement of Cooperative Governance

No	Informants’	Statement Quote	Meaning/Core of Findings
1	Board Member 1	“We hope there will be training and guidance from the agency, so that the board and members can learn together about how to properly manage the cooperative.”	The need for external training and coaching
2	Board Member 2	“May this cooperative continue to thrive, and may all members realize how important shared responsibility is.”	Increasing collective awareness
3	Supervisor	“My hope is that this cooperative can become more orderly and transparent, so that all reports are clear and can be properly monitored, thereby increasing members’ trust.”	Strengthening transparency and oversight systems
4	Member 1	“I hope the board will be more open about finances and that members will be more disciplined, so there is no suspicion among us.”	Balance between the roles of administrators and members
5	Member 2	“Hopefully, in the future, there will be explanations or training for members, so that we can better understand and take responsibility within the cooperative.”	Educating members and increasing understanding

Based on the interview results, a hope was identified that reflects the cooperative’s need to strengthen institutional *governance* and human resource capacity. Member education and training are crucial components in fostering a culture of accountability. In line with the cooperative principle emphasizing member education, these steps can cultivate the awareness that the cooperative is a shared responsibility, not merely the board’s duty.

This hope reflects a growing collective consciousness that stems from the direct experiences of members and leaders. Its phenomenology suggests that hope is not merely a pragmatic desire to improve the system, but also a reflection on the values of solidarity and moral responsibility. The

higher the level of collective awareness, the stronger the moral foundation for fostering a culture of accountability within the cooperative. Therefore, training and capacity-building efforts must be directed toward cultivating ethical awareness and a sustainable sense of ownership.

In addition, external guidance from government agencies or training institutions can strengthen the oversight system and ensure that each cooperative operates in accordance with the principles of accountability. However, effective supervision must also be accompanied by active participation from members so that it does not rely solely on the board of directors. Thus, good cooperative governance can be achieved through synergy between formal systems and social awareness that grows from within the cooperative itself.

Reflections on Accountability and Moral Hazard in the Practice of Credit Union Management

Based on the overall findings, accountability practices and the emergence of moral hazard risks in credit unions indicate an interrelated relationship within the dynamics of organizational management. Accountability is reflected not only through the submission of financial reports but also through how the board fosters open communication, maintains members' trust, and consistently fulfills its responsibilities in managing funds. In the context of this case study, accountability tends to be practiced primarily at the administrative level—such as presenting reports during meetings—but is not yet fully supported by communication mechanisms that ensure all members fully understand the cooperative's financial condition.

On the other hand, the study's findings also indicate that limitations in accountability practices directly contribute to the emergence of moral hazard risks, both on the part of the management and the members. From the management's perspective, limited resources and weak oversight result in not all transactions being monitored effectively. Meanwhile, from the members' perspective, a lack of understanding of financial reports and the cooperative's condition fosters irresponsible behavior, such as delays or non-compliance in loan repayments. In some cases, members view the cooperative as "shared money" that can be utilized without considering the collective impact, which ultimately risks undermining the cooperative's own sustainability.

Reflection on these findings suggests that accountability and moral hazard are two inseparable aspects of cooperative management practices. Weak accountability—whether in the form of information transparency or member participation—creates opportunities for moral hazard to emerge. Conversely, increased awareness of responsibility and effective transparency can serve as social control mechanisms capable of curbing potential misconduct. Thus, strengthening accountability requires not only improvements to administrative systems but must also be accompanied by enhanced communication, member education, and the cultivation of an organizational culture that emphasizes the values of honesty, responsibility, and a sense of ownership.

Overall, this case study confirms that the success of credit union management is determined not only by formal procedures, but also by the quality of social interactions and collective awareness among the board and members. Without a balance between sound management systems and the internalization of moral values, credit unions risk facing moral hazard that could undermine the institution's long-term stability and sustainability. Therefore, efforts to strengthen cooperative governance must be directed not only at technical aspects but also at the development of ethical awareness and shared responsibility as the primary foundation of accountability.

CONCLUSION

Based on the research findings, it can be concluded that accountability in credit unions is not merely understood as an administrative obligation in the preparation and submission of financial reports, but also as a form of moral and social responsibility grounded in the values of honesty, transparency, and trust among members. In practice, accountability is still largely carried out at a formal level through the presentation of reports in meeting forums, but this has not been fully

accompanied by effective communication and members' understanding of the cooperative's financial information. Therefore, cooperatives need to improve the quality of transparency by presenting reports that are simpler, more communicative, and delivered on a regular basis, so that they can be understood by all members as a substantive form of accountability.

Furthermore, this study found that the risk of moral hazard remains a challenge in the practice of credit unions, as evidenced by some members' low awareness of their loan repayment obligations and weak internal oversight. Moral hazard is influenced not only by economic factors but also by social and moral factors, such as a low sense of ownership and a lack of internalization of the value of shared responsibility. Therefore, cooperatives need to strengthen their internal oversight systems and adopt an educational and persuasive approach to fostering member discipline, not only through formal rules but also through the cultivation of values and ethics.

Furthermore, the research findings indicate that accountability and moral hazard are interrelated; weak accountability can create opportunities for moral hazard to emerge, while strengthening accountability can serve as an effective mechanism for social control. Thus, strengthening cooperative governance requires not only improvements to administrative systems but must also be accompanied by increased member participation, training and mentoring from both internal and external parties, as well as the development of an organizational culture that emphasizes the values of honesty, responsibility, and a sense of ownership. These efforts are expected to create a balance between sound management systems and collective moral awareness, so that cooperatives can function sustainably as economic institutions as well as spaces for social learning for their members.

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