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Abstract

- **Purpose:** The relationship between trust, accountability and procedural justice is studied via research into British credit unions following regulatory reform to remedy problems exposed by the 2007-8 global financial crisis.
- **Study design/methodology/approach:** Interviews at thirteen case studies of different types and sizes of credit unions in Glasgow, Scotland, are examined using template analysis and abductive theorising to understand the effects of disproportionate reforms on small credit unions.
- **Findings:** Smaller credit unions found three regulatory changes – namely dual regulators, increased minimum reserves and introduction of the Senior Managers and Certification Regime – excessive. Excessive change generated distrust in regulators. Regulators' insufficient attention to procedural justice contributed to this distrust.
- **Originality/value:** Linkage of a multidimensional confluent trust to a multilevel system of accountability provides an original way of understanding how indiscriminate attempts at trust repair damage some elements of trust in formal regulatory systems. Recognition of the need for procedural justice to enable smaller credit unions to articulate their extant checks and potential exemption from formal regulations provides another valuable contribution. Explanation of the abductive logic employed is also original.

Keywords: Trust; Accountability; Procedural Justice; Financial Exclusion; Microcredit; Credit Unions.

1) Introduction.

This research originally sought to investigate the relationship between accountability and trust at credit unions (CUs) in Glasgow Scotland. Presence or absence of trust has been linked to religiosity (Creel, 2022; Kortt and Drew, 2019), social and economic differences (Hodosi, 2015), political ideology (Saarinen et al., 2020), insufficient governmental responses to catastrophic events (Miller, 2016) and length of relationships (Weber and Carter, 1998). However, considerations of trust's relationship to accountability are inconclusive. Dhanani and Connolly (2012) suggested accountability promoted trust. Conversely, Schoorman et al. (2007) reported unnecessary forms of accountability inhibit trust. Glasgow was chosen for the research as it was labelled the "Credit Union Capital of Britain" (ABCUL, 2010) due to its abundance of CUs. As CUs offer a potential counter to financial exclusion in Britain (Sinclair, 2013), their success in Glasgow offered a means to investigate whether forms of accountability led more people to trust CUs, to help counter financial exclusion. Case studies of thirteen Glasgow CUs revealed increased accountability through new regulations led to a complex pattern of trust and distrust. Consequently, the research question was reformulated to ask: In what ways did patterns of trust and accountability differ between different-sized CU and why?

Reformulation of the research question after collection of evidence demanded an abductive approach to move iteratively between empirical evidence and theory to develop the best explanation of the pattern observed (Kennedy and Thornberg, 2018). While abduction – also known as retroduction – has a long history (Peirce, 1992), this article provides a rare example of how theorizing developed during a study. Different patterns of trust at CUs necessitated distinguishing unidimensional views of trust and distrust as polar ends of a single continuum (Mayer et al., 1995; Schoorman et al., 2007) from multidimensional perspectives that view trust and distrust co-existing (Fredericksen, 2014; Lewicki et al., 1998) and recognising a logical corollary of the latter is moments of trustful interaction synthesise different dimensions. As changes to accountability arose from distrust in banks following the global financial crisis (GFC), it was necessary to consider the causes of the GFC (Cerbioni et al., 2015; Engelen et al., 2011; Froud et al., 2017; Heilpern et al., 2009;; Mueller et al., 2015; Sikka, 2015) and how stronger terms of accountability through new regulations were deemed appropriate remedies (Ahmed et al., 2020; Bachmann et al., 2015; Mueller et al., 2015). Why new regulations were experienced differently by different sizes of CUs when none had violated public trust (Hurley et al., 2014), required consideration of procedural justice (Brockner, 2002; Graso et al., 2014; Six, 2013).

This article argues banks violated dimensions of confluent trust and prompted regulators' changes to accountability provisions that were also applied to CUs. Large CUs found the changes manageable, but small CUs considered them excessive and lost trust in regulators, an outcome that regulators might have prevented by attention to procedural justice. Section 2 develops the theoretical framework of confluent trust, accountability through regulation and procedural justice. Section 3 provides the historical backdrop of development of elements of confluent trust and content of regulatory reforms affecting CUs and banks when banks violated elements of confluent trust. Section 4 outlines the methodology for the empirical research reported in section 5 that shows how new accountability provisions affected CUs trust in regulators. Section 6 discusses this article's contributions.

2) Literature review: Confluent trust, accountability and procedural justice

Multiple definitions of trust exist in the academic literature (Järvinen and Branders, 2020; Lewicki et al., 2006). Some tend towards economistic calculations of costs and benefits in actions not covered by contracts (Williamson, 1993). More psychological definitions refer to trust either as an emotion (Barbalet, 1996; Fenton et al., 1999) or related to people's propensity to accept positions of vulnerability (Kortt and Drew, 2019; Rousseau et al., 1998; Tadese and Kassie, 2017). Sociological definitions – that are assumed here – entail trustors' expectations of trustees' actions and outcomes in conditions in which they do not have total control (Owen and Powell, 2006; Weber and Carter, 1998; Zimelis, 2012) that results in cooperative behaviour sustained by commonly shared norms (Fukuyama, 1995). Expectations of actions suggest a trustor's belief in the trustee's character and capability along with shared understanding of the environment where trustors and trustees interact.

Two issues require clarification about trust before considering its relationship to accountability. The first is whether trust and distrust are unidimensional at opposite ends of a single continuum (Mayer et al., 1995; Schoorman et al., 2007) or whether trust is multidimensional, permitting trust and distrust to co-exist in any interaction (Fredericksen, 2014; Lewicki et al., 1998). While acknowledging empirical evidence that distrust of government correlates with distrust of other institutions (Saarinen et al., 2020) which may support the single continuum view, trust and distrust are analytically separable, so – for example – it is possible to trust that people are competent in their actions without trusting their intent to use that competence for another's benefit. A logical corollary is that instances of exercise of trust arise from a synthesis of dimensions discussed previously to produce a confluent trust.

The second issue requiring clarification is the agent of trust. Weber and Carter (1998) suggest only humans possess agency to require and exercise trust. Others suggest trust in institutions. For example, Creel (2022) discusses trust in government. The position adopted here is although humankind's agency is unique, humans may embed agential qualities such as requirements for action in organizations and governments, in the form of social norms, rules, regulations and laws which may create imperatives for people to act in particular ways. Extent of imperatives will indicate whether organizational and governmental officers and citizens are trusted, while citizens may trust or distrust the organizations and governments' protocols and the competence and intent of organizations' officers. In other words, confluent trust may materialise in a variety of relationships. In the context of the issue addressed here, it is possible to view citizens' interactions with financial institutions affected by trust in individual officers, organizations and wider systems of regulation. Table 1 summarizes the three dimensions of trust and the parties involved, to give nine elements of confluent trust.

Table 1 near here

Reflecting the view that trust is multidimensional, Hodosi's (2015) and Zimelis's (2012) interpersonal trust is disaggregated into dimensions of morality, competence and shared understanding of the environment. Mayer et al.'s (1995) organizational trust is disaggregated into trust in an organization's internal protocols, resources and endurance. Systemic trust disaggregates Creel's (2022) trust in government into the dimensions of consistent laws, effective mechanisms to police non-compliance and resilient institutions. Trust may operate both horizontally between parties at the same level, or vertically between parties in superordinate-subordinate positions (Shahid et al., 2023). The nine elements may not be omnipresent in a system, although each's absence may weaken confluent trust. Moreover, as there may be a symbiotic relationship between elements (Fugslang and Jagd, 2015; Kroeger, 2011), any new violation of an element could undermine confluent trust. If violations become widespread at one level, they could create distrust in the functioning of a system's higher tiers, further undermining confluent trust. Spirals of distrust could ensue, precipitating systemic crisis (Mueller et al., 2015; O'Neill, 2002).

Accountability mechanisms in formal systems allow regulators and organizations to respond to trust violations. Accountability entails providing an account about one's exercise of responsibilities (Gray et al., 2014). Sanctions may follow if parties fail to meet their responsibilities (Stewart, 1984, c.f. Messner, 2009). Provisions for accountability and sanctions are codified routinely in regulated markets, contracts, organizations' corporate governance arrangements and networks' terms of engagement (Järvinen and Branders, 2020; Williamson, 1993). Consequently, accountability mechanisms may promote trust and changes to accountability mechanisms feature in attempts at trust repair (Ahmed et al., 2020; Bachmann et al., 2015). However, unnecessary forms of accountability inhibit development of trust (Schoorman et al., 2007). Trust is linked to procedural justice (Graso et al., 2014; Six, 2013) which may ameliorate detrimental impacts of changes to terms of accountability. Procedural justice entails the affected parties viewing decision-making as fair, even if outcomes prove inequitable (Brockner, 2002). Graso et al. (2014) indicate decision-making processes are perceived fair if ethical, consistent, unbiased, informed by accurate relevant knowledge, representative of all interested parties and open to scrutiny and correction should decisions prove inappropriate. This framework informs the following discussion of development of elements of trust in financial institutions, banks' violations and the post-2007-8 regulatory reforms.

3) Context

Unlike profit-seeking, investor-owned, international banks that sell many different financial services to the public, CUs are financial cooperatives democratically controlled by members – often in a small locality – for whom financial services are provided exclusively at fair rates (WOCCU, undated). Lee and Carlisle (2023) present CUs as hybrid organisations that grew out of a social movement against financial exclusion – which remains part of their social mission (Sinclair, 2013) – while being drawn into financial markets with investor-owned banks. Markets are not neutral but instead embody political relationships (Fenton et al., 1999). CUs are smaller and less powerful than banks. In Britain in 2021, 99.76% of the population held bank accounts while CU membership is only 3.26% and the top four retail banks' assets were £539 billion while CUs' assets totalled £2.5 billion. (WOCCU, 2021). These patterns reflect banks' establishment in the nineteenth century and public trust developing despite a lax form of systemic regulation although banks did develop detailed corporate governance codes to regulate customers, managers and shareholders' conflicting interests (Cook et al., 2002; Hansmann, 1996).

CUs only emerged in Britain in the 1960s to cater for people excluded by mainstream banks. CUs, thus, provided the self-help and microcredit witnessed recently in other countries (Bongomin et al., 2020; Chan, 2018; Karim and Law, 2013; Singh and Lee, 2020). CUs' mutual status minimised interpersonal conflicts and the need for corporate governance systems to provide organizational trust (Amess and Howcroft, 2001; Cook et al., 2002). The *1979 Credit Union Act* provided systemic trust by recognising CUs' identity while confining their membership to individuals in a geographical area, occupation or association. CUs' resultant small size facilitated members and volunteer officers' trust in each other's capability and character. Despite restrictions, a few – predominantly occupational – CUs grew, which led to divergent views about CUs' development. Some thought CUs should grow to compete with banks and adopt business-oriented methods (Goth et al., 2006). Others believed CUs' authenticity was independent of size and derived from their self-help objectives (Bickerstaffe, 2001). The *2000 Financial Services and Market Act* responded to these different views by introducing tiers of Version 1(V1) and Version 2(V2) CUs. The former had to demonstrate their directors' trustworthiness under an Approved Persons' regime and organizational trustworthiness via business plans and system controls, but they had to hold only a positive net value in reserve to demonstrate capability to receive savings and offer short-term, small loans to their limited memberships. V2 CUs could grow and offer larger, longer-term loans, but in addition to the above, they had to show greater organizational trustworthiness by introducing risk-management policies and holding a net value reserve of 8%. Only thirteen V2 CUs developed in Britain (Edmonds, 2015). The *2000 Financial Services and Market Act* also changed the basis for systemic trust in all financial institutions by creating a common tripartite supervisory arrangement involving the Bank of England, the Treasury and a new Financial Services Authority (FSA) (Amess and Howcroft, 2001; Baker, 2008; Milne and Wood, 2009). While CUs had grown to their greatest number of 697 in Britain prior to the

2000 legislation, this started to fall after the legislation even if their membership and assets continued to grow (McKillop et al., 2007).

The system of regulation described above existed during the 2007-8 GFC. Unlike in other countries where bank employees' demonstration of civic virtue and altruism promotes mutual trust between banks and their customers (Núnez et al, López, 2020; Zayas-Ortiz et al., 2015), the GFC arose in Britain from doubts in the trustworthiness of banks and their employees. Increased competition between banks resulted in adoption of inappropriate incentive-related remuneration packages, highly leveraged business models and an over-zealous sales culture which included lending to sub-prime mortgage applicants who would struggle to repay loans (Froud et al., 2017; House of Commons Treasury Committee, 2009; Parliamentary Commission on Banking Standards, 2013). Engelen et al. (2011) detail how retail banks repackaged sub-prime mortgages with loans and leases as collateralized debt obligations (CDOs). CDOs were stored in shadow banks not underwritten by central banks. Banks misrepresented CDOs as assets to generate further funds for additional sub-prime mortgages, contributing to demand-led house price inflation (Engelen et al., 2011). Default by sub-prime mortgagors led to falling house prices that exposed CDOs' limited value. Banks lost trust in each other's capability to honour obligations and stopped interbank trading on money markets. *Northern Rock* had used short-term borrowing from money markets to fund domestic mortgage provisions and so could not meet obligations on previous borrowing and demands for cash from savers when such funding diminished (Linsley and Slack, 2013; Milne and Wood, 2009). Distrust in *Northern Rock* spread to other banks and their CDOs-enriched market capitalization value halved (Ahmed et al., 2020; Cerbioni et al., 2015).

To preclude distrust in banks destroying confluent trust in the financial system, the Government partially nationalized some banks and provided £100 billion support to others (Edmonds, 2018; Sikka, 2015). The government then introduced legislation to rebuild trust.

The *Financial Services Act Revision 2012* changed supervisory arrangements to promote systemic trust by replacing the FSA by two bodies: The Prudential Regulatory Authority (PRA) to monitor individual financial institutions; and the Financial Conduct Authority (FCA) to provide systemic regulation so failings in one institution did not spread to others. The *2013 Financial Services Banking Reform Act* addressed trust in organizations' capability to honour obligations by recommending capital adequacy ratios of 10% for large retail banks and 7% for smaller banks (Edmonds, 2013). Capital adequacy ratios for V2 CUs (hereafter large CUs) – and those with 10,000 members and/or £10 million in assets – remained at 8%. V1 CUs (hereafter small CUs) had to satisfy new expectations. Minimum thresholds were set at: 5% for CUs with 5,000 members or £5 million in assets; and 3% for those with fewer members and less assets. The 2013 Act also introduced a Senior Managers and Certification Regime to replace the Approved Persons Regime, to reinstate trust in financial managers' character. This required definitions of each Senior Manager's responsibilities and a map showing links to others' duties (HM Treasury, 2015). Managers were obligated to seek to prevent breaches within their area of responsibility. Breaches could result in imprisonment (FCA, 2015). While the reforms were designed to address the dimensions of confluent trust violated by banks, they also affected CUs. Hayton (2001) reports that small CUs face a range of other challenges, so it is important that these are not accentuated by unnecessarily harsh regulatory burdens. The methods for researching such burdens are reported next,

4) **Methods**

This study was conducted in Glasgow, Scotland. The local government authority's (LGA) initiatives contributed to CUs' share of Glasgow's financially active population increasing from 3% in 2001 to 25% – or 160,000 members – with financial assets over £220 million by 2014 when this research was planned (Co-operative Councils Innovation Network, 2014). Consequently, Glasgow had 17% of Britain's CU members and hosted forty-one CUs with memberships ranging from a few hundred to 37,000 members.

4.1) *Evidence Collection*

Large and small community CUs existed alongside large national occupational CUs and small local occupational CUs. Alvesson and Ashcraft (2012) suggest representativeness by maximizing heterogeneity and quality of insights should guide participant selection in qualitative research. Representativeness was achieved by researching all size and types of CU. Some CUs' managers' dual roles as voluntary leaders of bodies representing CUs facilitated high quality insights. Each CU was visited. Visits enabled observations of CUs' operations and involved interviews with at least one manager. Interviews were audio-recorded and transcribed verbatim. Interviews were conducted in 2015 and email correspondence continued for another two years. Table 2 details each CUs' size,

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constituency, role of interviewees and a pseudonym for each participant. Our interview schedule covered participants' role, their respective CU's size, constituency, assets and financial services, trust, accountability, regulatory interventions; risk management, successes, support received; and problems experienced. For context, we also interviewed – and collected artefacts from – an LGA employee responsible for CU development.

4.2) *Analysis and Theory Building*

Interview transcripts were scrutinized using template analysis, a flexible form of hierarchical coding (King and Brookes, 2017). Template analysis was chosen over other possible methods of analysing qualitative evidence because regulatory reform, terms of accountability and trust were deemed to have real qualities and so it was important to gain understanding of their manifestation at different CUs for comparative purposes. The first iteration of the template used interview schedule themes as codes, particularly trust and accountability, before we prepared a report and sent it to participants for verification. A theoretical contribution for an academic audience was then prepared. As noted above, this advanced by abductive theorizing to develop the best explanation of the evidence (Kennedy and Thornberg, 2018). Recurring evidential themes were different origins of trust, small CUs' detrimental experiences and their dissatisfaction with post-GFC regulations. This led to consideration of whether distrust could coexist with trust (Fredericksen, 2014; Lewicki et al., 1998), why changing terms of accountability were seen as solutions to the GFC (e.g., Mueller et al., 2015) and whether different experiences between small and large CU were attributable to procedural justice (e.g., Brockner, 2002). The refined research question asks in what ways did patterns of trust and accountability differ between different-sized CU and why? To address this question, the final template adopted: Size of CU as the primary code; relationships between regulators, CU organizations, individual officers and CU members prior to the financial crisis as the secondary code; impacts of regulatory changes on trust at CUs as the tertiary code; and perceptions of procedural justice as the quaternary codes.

5) Findings

This section considers the impact of regulatory reform on different sizes of CU by first reporting on confluent trust and accountability before regulatory changes, then detailing how measures introduced to repair elements of confluent trust violated by banks affected CUs, before addressing how those reforms and limits to procedural justice influenced small CUs' trust in regulators.

5.1) *Trust and Accountability at CUs in Glasgow prior to the Financial Crisis*

CUs flourished in Glasgow prior to the post-GFC reforms. The LGA promoted equitable forms of finance by supporting CUs through sponsorship of training, underwriting some loan schemes, 100% rate relief, development grants and provision of high street retail offices at initial low rents. Uriah from the LGA explained: "[*T*]*here's still a lot of financial exclusion in the city.* […] *We feel that the Credit Unions can be part of the solution for that.*" Confluent trust was apparent, partly because the *2000 Financial Services and Markets Act* distinguished between small and large CUs when defining terms of accountability. Large CUs had wanted restrictions on their size and assets lifted but thought regulating all CUs similarly to banks would be destructive, so they lobbied successfully for "*a proportionate regime for* [*different size of*] *credit unions*" (Frank). Large CUs expressed satisfaction with the resultant arrangements. Small CUs reported not noticing regulatory changes arising from the 2000 Act. Petra said "*it never really changed … the way we report things. …* [*Also*] *all the board members for all the credit unions were grandfathered into the new FSA*".

Large CUs increased their membership and range of financial services including providing immediate loans for new members. Provision of these loans were accompanied by financial profiling to realise trust in the character and capability of new members. Officers' personal knowledge and records of past financial transactions endured as sources of trust in longstanding members' character and capability. Large CUs thought members trusted their character and capability because they provided good specialist financial services. If members violated trust by not making payments, large CUs' obtained accountability by contacting loan-holders for debit card payments and execution of recovery terms in loan contracts.

Most small CUs only provided longstanding CU products of shares as savings accounts and loans secured to shares. Their small size allowed regular engagement when members visited a CU's premises which promoted mutual trust in each other's character and capability. Small CUs also employed longstanding procedures to ensure new members' character and capability. Enduring practices included prerequisites of occasions of saving before receipt of a loan, limiting loan values to multiples of savings and structuring repayments so members' savings increased simultaneous to repayment of loans. An additional reason why members trusted the character and capability of CUs was the latter's willingness to help. Different participants said: "*The trust comes in, as I say, we've never not tried to help anybody.*" (Thomas); and "*the reason that we are trusted is that we help unequivocally*" (Kevin). Loan agreements contained sanctions if members violated trust by non-payment. There was also evidence of self-accountability because financial marginalization led members to demonstrate trustworthiness to the CU. John provided the following illustration: "*Mary … keeps her credit union* [*account in*] *tip top shape…* [*because*] *she knows that she'll get nothing elsewhere.*"

5.2) Changes to Regulation

Three reforms – namely, installation of dual regulators, new minimum capital requirements and replacement of the Approved Persons Regime by a Senior Managers and Certification Regime – designed to repair confluent trust violated by banks were reported as detrimental to CUs. Each are discussed in turn. Some large CUs questioned the need for dual regulation as CUs only lent money deposited by other members. Thus, CUs did not represent "*a systemic risk to our financial services sector*" (Frank). However, large CUs had specialist compliance functions and did not worry about dual regulators' increased demand for additional information. Most small CUs saw introduction of two regulators negatively. Reflecting academic concerns (Amess and Howcroft, 2001; Cook et al., 2002; Hansmann, 1996) that mutual organizations require less oversight than investor-owned banks, Quinn thought this change sought to impose "*standards* [*for commercial organizations*] *on organizations that are running differently*". Increased burdens of providing information to two bodies threatened small CUs' viability and promoted distrust in regulators. Different participants said: "*We always were compliant … We're finding it much more difficult, not because we're not getting the people in the door, it's keeping up with all the regulations.*" (Quinn); and "*it just seems to be more of a stranglehold on the credit unions from the PRA and the FCA*" (John).

New minimum capital requirements sought to promote trust that financial organizations had capability to honour obligations. Large CUs' minimum capital requirements remained unchanged. New requirements for small CUs took place in a complex, changing market that affected each differently. Distrust in banks led to increases in some CUs' reserves. Other small CUs thought new capital reserve requirements were unnecessary because their limited product range meant their experience of viable financial ratios guided their operation. Quinn explained: "[*W*]*e know roughly how many loans we're going to give out a year, can we cover that? ….* [*I*]*f we've £1 left in the bank then I'm delighted as all that money is out there earning 12%.*" Some small CUs found new minimum capital requirements detrimental. For example, John explained: "*Our general reserve … was about £30,000, but to go from that to what we now need, I'd to let staff go and then generate the profit and add to the reserve to meet the minimum requirements.*" Another small CU chose "*to stunt our growth*" (Rhona) to avoid reaching new thresholds.

Movement from an Approved Persons Regime to a Senior Managers and Certification Regime intended to repair trust in financial managers' character. This reform required definition of each senior manager's responsibilities mapped to others' duties (FCA, 2015). Large CUs had a larger workforce and considered this change applicable. Many small CUs saw this change as detrimental as some only had one paid employee. Quinn reported "*If you ... said "what are the functions of the credit union?" it's a treasury, supervisory, credit control, the loan committee and all the rest of it. Who's responsible for all these departments? Well, I am.*" Documentation of responsibilities added an administrative burden. A common concern was whether CUs could "grandfather" existing volunteer directors into Senior Manager roles. Norman explained: "[*W*]*e've heard horror stories that people ... building a credit union for a good number of years, have suddenly become an unfit or not classed as a proper person.*" A further concern was whether "Certification" referred to formal qualifications. Small CUs' boards reflected their broader membership, which included many without formal qualifications. John said: "[*I*]*t's virtually impossible to recruit new members to your board without them having some sort of professional qualification.*". The problem reported most frequently was this reform's capacity to exclude volunteer directors who wanted to serve their community but depended on paid employees for financial expertise. Kevin said "*my fear, reading a lot of the legislation, was that they're going to come here and* [...] *ask my board of directors a whole load of questions and say you're not fit for purpose. Albeit they've run this successfully for 26 years*". Small CUs also worried about replacing ageing, voluntary directors in a regulatory regime of personal responsibility that appeared punitive to well-intentioned volunteers. Thomas said: "*Getting new blood to come into the credit union environment, you know, we don't pay you any money ... if something goes wrong you could be charged, personally ... they're hinting ... they could be put in jail.*"

The impact of these changes on small CUs' trust in regulators is considered next.

5.3) *Impact of new regulations and procedural (in)justice on CUs' trust in regulators*

Confluent trust embodies shared expectations about the environment. Procedural justice may help construct shared expectations. Procedural justice requires decision-making processes to be ethical, consistent, unbiased, open to scrutiny and correction of inappropriate decisions, reliant on accurate relevant knowledge and representative of all interested parties (Graso et al., 2014). Large CUs seemed able to influence reforms. For example, Edward said: "*Both regulators will listen, and the legislators in that respect as well.*" Consequently, large CUs were willing to accept regulatory changes applied to commercialised financial institutions. Anne said "*we've heard some of the smaller credit unions say that credit unions are credit unions, they're not businesses. But I think that we take the view that we are a business that is a credit union… so we have to operate as a business*".

By contrast, small CUs believed regulatory changes were flawed, biased and not adequately representative of their interests. Small CUs questioned whether regulators understood the difference between CUs and banks. Different participants said: "[*The regulators*]*'ve taken a broad-brush approach, they're treating us like banks now.*" (Kevin); "*we couldn't figure out why we were getting treated the same as banks, because we're not the same as banks*" (Michaela); and "*it's 'one size fits all'*" (Quinn). Consequently, some small CUs expressed distrust in regulators. For example, Kevin said "*we have the 34* [*community CUs in Glasgow which are*] *…needed within the communities. But I've got this terrible feeling that the PRA are not happy with that*". Due to the *2000 Financial Services and Market Act*'s distinction between small and large CUs with proportionate amounts of regulation for each, small CUs experienced little change in regulations since their inception, until the GFC. Quinn explained: "*Before we done our books once a year, gave them to the auditor and that was it. Your accounts were sent off to the FSA, as used to be, before that it was the Friendly Societies …. Now you've got monthly reports, quarterly reports, annual reports.*"

Small CUs thought the post-GFC reforms affecting them were unnecessarily numerous, rapid and punitive and punished them for banks' misdemeanours. There were repeated concerns that regulation would lead to successful small CUs closing. Different participants said "*we're successful, we're doing all right but* [*the regulators may say*] *we're not complying*." (Thomas) and "*I think some of the regulations are smothering credit unions*" (Imogen). Perceptions of biased reforms were linked to small CUs not being consulted properly on regulatory changes. Michaela reported: "*We went to a meeting a couple of weeks ago and … once they had all done their presentation* [*about planned regulatory changes*] *they asked about questions. … [E]verybody had questions. They couldn't answer them … and just said that they would email us. We're still waiting on the email.*" Petra added: "*They've already decided what changes there's going to be*". Thus, small CUs were victims of procedural injustice and some distrusted regulators.

6) **Concluding Discussion**

This article addressed in what ways did patterns of trust and accountability differ between different-sized CU and why? Hitherto, disagreements existed on the relationship between trust and accountability (e.g., Dhanani and Connolly, 2012; c.f., Schoorman et al., 2007). By extending the idea that trust is multidimensional (Fredericksen, 2014; Lewicki et al., 1998), this article makes a conceptual contribution by articulating confluent trust as a combination of those different dimensions as they manifest and interact symbiotically in a multilevel systems of regulatory accountability, This has allowed understanding of how regulators' attempts to repair some dimensions of confluent trust violated by banks, by strengthening terms of accountability, had detrimental effects on small CUs that were regulated alongside banks.

A second contribution of this article has been to explore the elements of confluent trust that regulators sought to repair, which small CUs found excessive. These were threefold. Firstly, introduction of dual regulators to promote systemic trust that banks were safe spaces for financial transactions. Secondly, new minimum capital requirements to promote trust in financial institutions' capability to honour obligations. Thirdly, introduction of the Senior Managers and Certification Regime to repair trust in financial managers' character. This approach facilitated recognition that these reforms carried disproportionate costs that threatened small CUs' existence and generated distrust in regulators. If accountability is to enhance confluent trust, regulatory change should target the right parties exclusively, especially when sanctions for non-compliance threaten innocent parties' existence. An underlying problem appears to be regulators' view that CUs are simply financial institutions functioning in non-discriminatory markets. However, markets are not neutral (Fenton et al., 1999) and CUs are hybrid organisations combining provision of financial services with existence as a social movement promoting financial inclusion (Lee and Carlisle, 2023; Sinclair, 2013). Like other mutual organizations, they have different characteristics to investor-owned banks and require less stringent oversight (Amess and Howcroft, 2001; Cook et al., 2002; Hansmann, 1996). Instead, informal interactions between members and managers at small CUs promote confluent trust because their longstanding in the community and willingness to help, facilitate accountability in ways that large organisations cannot realise. Moreover, they helped realise financial inclusion because their decisions were based on need and community ties in addition to considerations of financial capability. Application of common principles – such as increases to minimum capital requirements, rather than investigating the viability of small CUs' own financial ratios – led to small CUs' suffering detrimental effects of banks' misdemeanours which damaged local community services. Three out of the eight small community CUs studied, stopped functioning within five years of the fieldwork to the detriment of their local communities. This reduction was reflected across Britain where CU numbers dropped from 342 to 240 over the same period (WOCCU, 2015; 2020). A reminder of the need for sensitivity to small, mutual organizations' social role is salutary if they are to endure to help counter financial exclusion.

The study found that while some reforms were accommodated by larger CUs that could influence regulatory change, they were more costly for small and less influential CUs. Indeed, this study found that regulators even failed to provide timely information to small CUs. Consequently, small CUs were more likely to distrust regulators. This finding leads to a third contribution of this article; namely the need for procedural justice prior to regulatory reform to allow all organizations to influence the change. Unlike when procedural justice is present (e.g., Grazo et al., 2014), small CUs experienced reforms as biased, unrepresentative of their interests and insufficiently informed by relevant information. By suggesting procedural justice allows expression of interests to create trustful environments when accountability provisions are changed, this article does not only clarify the relationship between trust and accountability; it also indicates means by which regulatory change may target the right parties exclusively and identify where exemptions from regulations may be introduced.

This article has also made a methodological contribution. Despite knowledge of abductive logic being longstanding (Peirce, 1992), few studies explain how theory developed during a research project. Adoption of theories not considered at the outset were explained above. Positivists may argue this manuscript is limited by ex-post factor hypothesizing that precluded the possibility of its ideas' falsification. It may also be argued that the research findings are limited to Glasgow. No assertions are made that similar findings will be found elsewhere because local government authority support helped Glasgow CUs develop.

Nevertheless, that help allowed this study to research a range of different CUs in a common environment to compare challenges across CUs and to indicate the size of organization that could be affected elsewhere.

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Table 1 Elements of confluent trust at different levels of financial systems.

Elements of trust ➡ **Level ⬇**	**Character**	**Capability**	**Shared expectations**
Individual officer	Morality	Competence	Similar understanding of contracts and informal norms governing exchanges
Financial institution or organization	Internal protocols and rules to support shared mission	Capacity and resources including financial reserves	Endurance.
System of regulation	Legal and regulatory cohesion and consistency	Effective policing and accountability measures	Mechanisms to ensure reliable and resilient institutions

Table 2: CUs and Research participants

Organization	Membership	Constituency	Participant(s)	Interview length	Participant identification
Large Community CU	37,000	Glasgow	General manager, marketing manager	75 minutes	Anne, Barbara.
Large Community CU	29,500	West of Scotland	Manager	75 minutes	Colleen
National Occupational CU	9,100	Primarily Scotland and Northern England.	Manager	60 minutes	Deborah
			Senior manager	70 minutes	Edward
National Occupational CU	13,500	Industry-wide across Britain	Chief Executive	90 minutes	Frank
Small Community CU	8,000	Several districts in Glasgow and associated organizations	Manager	120 minutes	Gordon
Small Community CU	2,700	Glasgow	Outgoing manager	30 minutes	Harriet
			Current manager	50 minutes	Imogen
Small Community CU	4,000	District within Glasgow	Manager	90 minutes	John
Small Community CU	2,200	District within Glasgow	Manager	70 minutes	Kevin
Small Community CU	1,900	District within Glasgow	Manager	90 minutes	Liam
Small Community CU	1,800	District within Glasgow.	Manager	20 minutes	Michaela
			Treasurer	20 minutes	Norman
			Manager and treasurer	20 minutes	Michaela and Norman

			Manager, treasurer and another worker	45 minutes	Michaela, Norman and Olga
			Manager, treasurer and two other workers	30 minutes	Michaela, Norman, Olga and Petra
Small Community CU	2,000	District within Glasgow	Manager	60 minutes	Quinn
Small Community CU	4,200	Glasgow	Manager and office worker	90 minutes	Rhona and Sean
Local Occupational CU	1,600	Occupation in Glasgow	Treasurer	90 minutes	Thomas
GCC			CU liaison	120 minutes	Uriah