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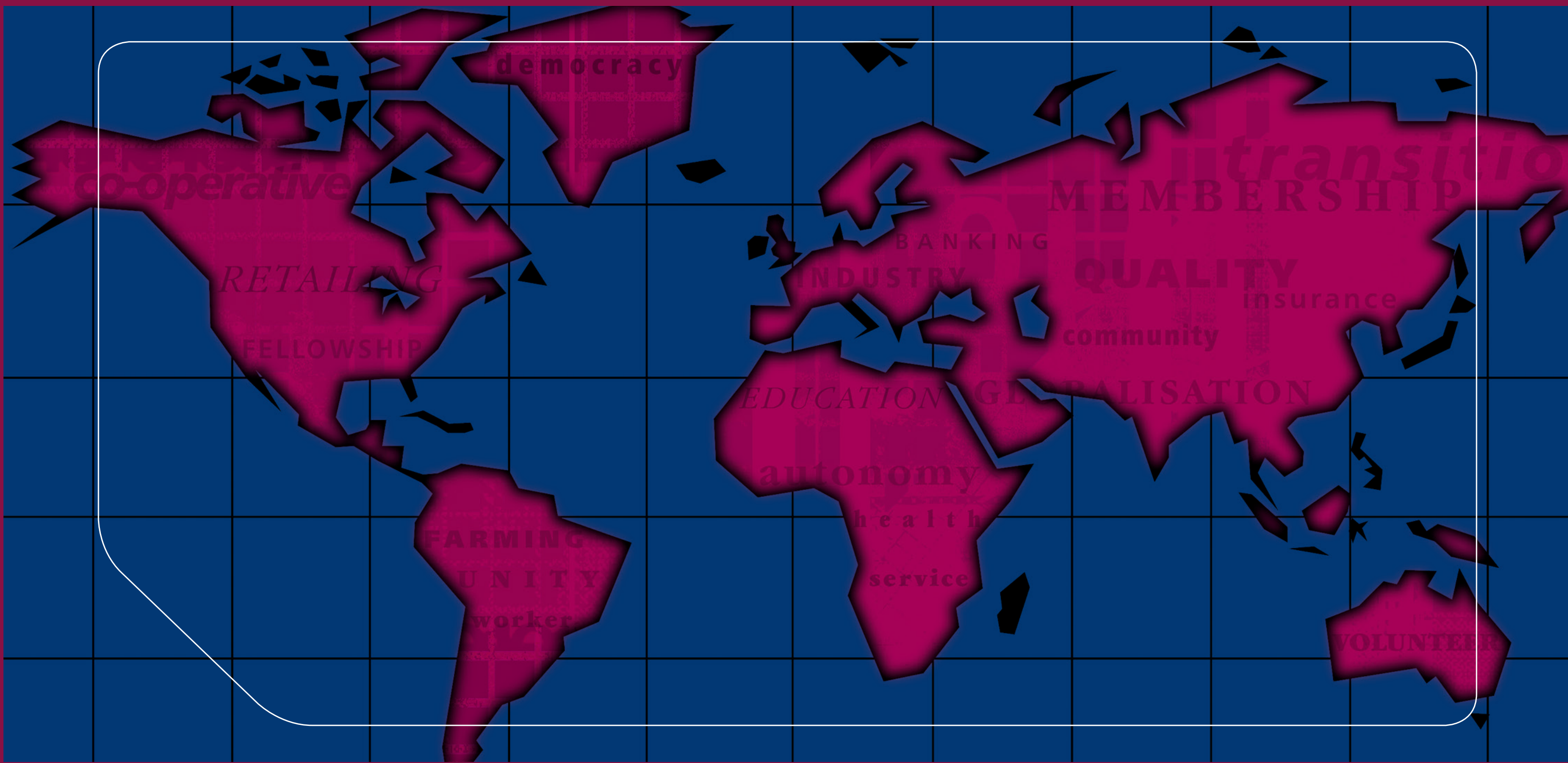

SPECIAL – JUST IMAGINE 2012 CONFERENCE ON CO-OPERATIVE ECONOMICS, QUEBEC CITY, CANADA

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Focus on Ireland, The Impact of Globalisation on Credit Unions
Legal Reforms – Threats and Opportunities
Community and the Credit Union Difference
Internet Banking and Irish Credit Unions
Co-operation between Co-operatives for Energy and Climate Change
Co-operative Networking for Innovation
Co-operative Autonomy and Enterprise: An African Case Study

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The Journal is now listed in *Cabells Management Directory*, the premier journal listing agency in the USA.

Notes on the contributors

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Editorial

It is always exciting to commence new relationships and particularly in this UN Year of Co-operatives 2012 we at New Harmony Press are delighted to launch our new association with **The Sobey School of Business at Saint Mary's University** - a world-class centre of excellence and innovation in co-operative education. On behalf of myself and my fellow worker directors at New Harmony Press I send Co-operative greetings to our colleagues at Saint Marys University and to the delegates and sponsors of the ***Imagine2012 Conference*** in Quebec City – an event combining a conference of distinguished economists with an International Co-operative Summit. The list of sponsors and endorsements for this conference is impressive by any standards but I feel I must give a special word of acknowledgement to one of the conference sponsors **Desjardins** who alongside their fellow Canadian Co-operative **Co-op Atlantic** with **NTUC Income** in Singapore provided the vital start -up funding to enable the **New Harmony Press** to launch the ***International Journal of Co-operative Management*** - now celebrating its twelfth issue.

This conference Special Edition is an enhanced version of the Vol. 6 No 1 issue of the *International Journal of Co-operative Management* which focuses on the Irish Credit Union Movement and includes two North American papers and one from Africa. It is also the occasion, and a particular pleasure for me, to welcome Prof Sonja Novkovic to our editorial team.

I hope readers of this special edition of the journal will take the time to visit the New Harmony Press Website www.newharmonypress.coop where they will find details of how to subscribe to our journal and also how they may contribute papers for peer review and eventual publication in the journal.

In England we have a saying that good things come in threes and it's certainly true in the case of the New Harmony Press for in addition to our new association with Saint Marys University and the launch of our new website it is with great satisfaction that I can announce that our journal has been listed in Cabell's directory of commendable management journals.

Peter Davis

Peter Davis, Editor

October 2012

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Authors with ideas and analyses, case studies, research monographs with a focus related to co-operative management and the movement, the social economy and sustainable development, or with outside perspectives that could be of strategic value to both co-operatives and the social economy, are welcome to submit proposals.

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Research and Practice of Credit Unions in Ireland and the North of Ireland

Olive McCarthy

This edition of the journal is a special edition primarily devoted to research on Irish credit unions. Credit unions were first formed in Ireland in the late 1950s. The Irish credit union movement is now by far the largest sector of the co-operative movement on the island of Ireland with over 600 individual credit unions and in excess of 3 million members.

The credit union movement, both in the Republic of Ireland and the North of Ireland, is at a critical juncture. In May 2011, the Irish government established an independent *Commission on Credit Unions* to review the future of the credit union movement and to make recommendations on its regulatory structure. Its interim report, published in September 2011, makes recommendations on strengthening the regulatory framework, governance and stabilisation of credit unions. The remainder of the Commission's work will focus on the future structure of the credit union sector, designed to lead to the publication of new credit union legislation by June 2012. In August 2011, the Financial Services Authority (FSA) and HM Treasury published a joint consultation paper setting out proposals for the transfer of the regulation of Northern Ireland credit unions from the Northern Ireland Department of Enterprise, Trade and Investment to the FSA. The transfer is due to take place on the 31st March 2012. The stated aim is to enable credit unions in Northern Ireland to offer a wider range of services than they are currently permitted to do, and to extend the Financial Services Compensation Scheme and the Financial Ombudsman Service to Northern Ireland credit unions, thereby protecting credit union members more fully. The proposed changes facing credit unions throughout the island of Ireland are immense and there is a clear sense that credit unions, individually and collectively through their representative bodies, are preparing for a watershed in their history.

This special edition of the journal includes double blind peer-reviewed papers from credit union researchers in the Republic and North of Ireland. It is also greatly enhanced by a wide selection of executive pieces and research reports from various stakeholders within the movement, including the Irish League of Credit Unions (ILCU), the Credit Union Development Association (CUDA), the Credit Union Managers' Association (CUMA), and CUNA Mutual.

The first paper by Carol Power *et al* explores some of the societal impacts of Irish credit unions, both intended and incidental. This is particularly significant at a time when credit unions have been seeking to demonstrate and build their competitive advantage as community-based organisations with deep concern for their members and wider community. The embeddedness of credit unions in their local communities reinforces the value of the common bond and gives a sense of belonging and ownership that conventional banks will never be able to replicate.

The significance of embeddedness is returned to later in the paper by Noreen Byrne *et al* which challenges the current drive towards mergers in the Irish credit union movement and advocates a greater focus on the credit union-member relationship. Much of the current public discourse on credit unions fails to take the views of the 'ordinary' credit union member into account. This paper includes results from a survey of credit union members where it becomes clear that members are far more interested in the local presence of credit unions and the relationships of trust and loyalty, than they are in bigger, more remote credit unions that offer a wider range of services.

In his paper, Ted O'Sullivan explores the criteria that can be used to measure board performance in credit unions. Under the 1997 Credit Union Act, supervisory committees are charged with overseeing the performance of the board on behalf of the members. Financial ratios are an extremely important source of information and which may, in fact, provide much of the information needed to assess board performance. It would seem that many credit unions do not give their financial ratios the attention they deserve.

Donal McKillop and Barry Quinn explore IT adoption by Irish credit unions with a particular focus on the adoption of internet banking technology. This is a difficult issue for credit unions due to the large number of IT systems in operation and historical difficulties in working more closely together on IT systems development. Size, organisational structure, affiliation and certain characteristics of the area within which credit unions operate, all influence the probability that credit unions will adopt internet banking. Notwithstanding past difficulties, McKillop and Quinn conclude by advocating a movement-wide approach to the adoption of IT by credit unions, particularly given the small size and capacity of the majority.

The next section of the journal contains three opinion papers from executives within the Irish credit union movement. Despite some differences in views and approaches, there is clear consensus that the credit union model needs to be strengthened and the credit union difference needs to be enhanced and built upon. The first executive paper gives views on the Commission on Credit Unions in the Republic of Ireland from Kieron Brennan, CEO of the Irish League of Credit Unions. The Irish League of Credit Unions is a trade and representative body for 504 credit unions throughout the island of Ireland. In his paper, Brennan outlines the interim recommendations from the Commission regarding deposit protection, resolution, stability, liquidity, governance and regulation. These recommendations are intended to strengthen the credit union regulatory framework and provide for more effective governance and regulation. Brennan posits that the implementation of these recommendations will largely determine the future role of credit unions in Ireland.

Kevin Johnson, CEO of the Credit Union Development Association, a credit union representative and development association, agrees in his paper that the destiny of credit unions depends heavily on the Commission's recommendations. He views the Commission as a rare opportunity for credit unions to guide and influence policy and stresses the importance of credit union engagement with the Commission's deliberations. CUDA would like to see the resulting regulation of credit unions take cognisance of the unique nature of credit unions and enabling credit unions to serve the needs of their members within the framework of its chosen risk appetite.

The theme of regulation is taken further by Selina Gilleece of the Credit Union Managers' Association in the third executive piece. She gives a comprehensive review of the regulatory backdrop for credit unions and the challenges for credit unions of ever increasing regulation. She argues that, despite their inherent differences, credit unions are now part of the financial services sector and are clearly being treated as such by government. She concludes by urging credit unions to focus their efforts on devising a strategy that will help them to survive and develop and which will demonstrate their differences more clearly to government and society.

The Irish Credit Union executive papers are followed by two research reports into views on Irish credit unions. The first paper, by John Knox of the Irish League of Credit Unions, details research commissioned to examine the views of members and non-members of credit unions. The results of the research are heartening, showing that people really do see credit unions as different and important in their communities. People tend to trust credit unions more than conventional banks and understand that members' best interests are at the heart of everything credit unions do. The second research report by Paul Walsh briefly discusses the views of credit union leaders – chairpersons, managers and treasurers – on the future of credit unions over the next 5 and 10 years. Despite the difficulties, it was felt that credit unions are here to stay, although the shape of the movement is seen as likely to include shared services and mergers.

We have two non-Irish contributors covering topics of critical importance to Irish and global Credit Union and the wider co-operative movement. David Ehrlich's refereed paper considers the potential of Credit Union and other community finance initiative to address the energy crisis whilst Peter Davis' executive opinion addresses the crisis in a more general perspective and suggests time is running out for a change in economic model to save our planet. The co-operative alternative needs development and strategic leadership. Davis argues the movement needs to build alliances if an alternative economic model is to succeed.

Finally, it remains for me as guest editor of this edition to thank the various contributors for their valued insights into the Irish credit union movement and for their patience in working with me towards getting their research and ideas into print. I also wish to thank CUNA Mutual for their most willing and generous sponsorship of this edition of the journal. And finally, I wish to thank Dr. Peter Davis most sincerely for so readily agreeing to and assisting with a special edition on what I see as one of the most fascinating co-operative sectors in the world.

Olive McCarthy

Olive McCarthy, Guest Editor

March 2012

Credit unions and community in Ireland: Towards optimising the principle of social responsibility

Carol Power, Ray O'Connor, Olive McCarthy & Michael Ward

Abstract

In Ireland, credit unions appeal to a broad socio-economic spectrum and have become integrated into the mainstream financial services market. As many credit unions seek to provide services comparable to conventional banking institutions, they risk eroding their distinctive co-operative ethos. A key differentiating characteristic of credit unions is concern for community and social responsibility. In a business climate where many consumers question the societal and/or environmental impact of businesses, credit unions enjoy a distinct competitive advantage. Despite this, the role of credit unions in promoting societal wellbeing has received limited attention in academic literature. In order to capitalise on its unique competitive advantage, and fulfil its objective of social responsibility, the credit union movement must develop approaches to optimising and assessing how it impacts on communities. Based on research conducted in 40 credit unions, this paper explores the key benefits accruing to communities through intentional and incidental societal impacts. It offers some suggestions for the range of instruments that credit unions can use to optimise the principle of social responsibility. It argues that the impact of credit unions on their communities cannot be left to chance but requires management through the identification and definition of social goals and through periodic assessment of the credit union's success in meeting its targets.

Key words

Credit Unions, Community, Ireland, Social Responsibility

Introduction

Since its emergence in the 1950s as a means of providing credit to those marginalised by the conventional banking sector, the credit union movement in Ireland has experienced significant growth. Today, there are approximately 600 credit unions on the island of Ireland, of which 504 are affiliated to the Irish League of Credit Unions (ILCU). The majority are community-based.[1] Credit unions affiliated to the ILCU have 2.95 million members.[2] Almost €12 billion are held in members' shares and members' loans are €6.8 billion (ILCU, 2010). In terms of membership, credit unions are the largest and most successful co-operative sector in Ireland. They have attracted members from across the socio-economic spectrum and have become a popular 'banking' choice for the middle-classes (Douthwaite, 1996; McCarthy et al., 2000; Corr, 2006; Byrne et al., 2010). Because of their widespread appeal, gradually, they have become integrated into the mainstream financial services sector, operating in the same market as conventional financial institutions. However, an ability to demonstrate and highlight the distinctiveness of credit unions *vis-à-vis* conventional financial institutions will be a key determinant of the future of credit unions in Ireland:

> "*Irish credit unions have not done enough to show that they are not merely a subset of the posse of conventional financial institutions... Creating a greater sense among members of the unique value of credit unions to the community will differentiate them from commercial financial institutions and will play a role in sustaining credit union growth and development*"
>
> (McCarthy et al., 2000, p.125).

More than a decade after McCarthy et al. made this statement, it has renewed relevance, particularly in the context of the damage done to Ireland's economy by a banking sector that engaged in reckless lending. Credit unions must view this period of change in the financial services sector as an opportunity to secure their future by reaffirming their distinctiveness – that they are member-owned financial co-operatives and, thus, the interests of members are paramount – and exploiting this unique competitive advantage.

One of the key factors that distinguish credit unions from conventional financial institutions is their member-oriented ethos. In this context, social responsibility is a core operating principle of the credit union movement and, therefore, it is important to develop a deeper understanding of the societal impact of credit unions. The operating principle of social responsibility states:

> *Continuing the ideals and beliefs of co-operative pioneers, credit unions seek to bring about human*

> *and social development. Their vision of social justice extends both to the individual members* ***and to the larger community in which they work and reside*** *[emphasis added]. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern*
>
> (www.creditunion.ie)

The concept of corporate social responsibility (CSR) and the related concept of social auditing or reporting have received considerable attention in academic literature (e.g. Gray et al., 1997; McAlister and Ferrell, 2002; Garriga and Mele, 2004; Windsor, 2006; Uski et al., 2007; see Mayo, 2011 on CSR in co-operative organisations). CSR can incorporate multiple dimensions, including service to members/clients, development of staff and management and the impact of business on the wider community and the environment. Based on the perception that a growing number of consumers are concerned with ethical behaviour in business, many leading companies have embraced the concept of corporate social responsibility (Mohr et al., 2001; Nicholls, 2002).

Companies that "act in society's best interests often find that they are also serving their own interests" (Johnston, 2006, p.32). In the context of credit unions, "their own interests" equate with the interests of the community because members of the community own the credit union. While credit unions must be economically sustainable, their principal motivation is not to generate profit but to provide a socially responsible financial service to members and the communities within which they operate. Profits are redistributed locally to members and their wider communities. This contrasts with conventional financial institutions, where the financial interests of shareholders and customers are somewhat conflicted. While social responsibility is optional for most businesses, for credit unions it is an integral component of the movement's philosophy.

Despite the scale of the credit union movement in Ireland, both in terms of membership and assets held, the social impact of credit unions on their communities has never been adequately assessed. Based on a study of 40 credit unions, this paper explores the nature of linkages between credit unions and their local communities, specifically in the context of their impact on society at local level. This impact is considered in terms of collective social impact and purposive engagement with the community development agenda (through community groups, schools and youth activities, and support to local enterprise). The study enhances and deepens our knowledge of relationships between credit unions and their communities. The research was conducted when the Republic of Ireland was still enjoying phenomenal levels of economic prosperity. However, this prosperity was fuelled by the financial services sector which, in a 'light-touch' regulatory environment, aggressively marketed a range of credit facilities. Ultimately, this proved unsustainable and led to crisis in the banking sector. The response to this crisis was to impose increasingly strict regulation on the financial services sector, including credit unions, which are now obliged to hold more funds in reserve to ensure that they are adequately capitalised. This is likely to constrain their ability to provide loans and also to contribute financially to community groups and projects.

In the current recession, when public spending is curtailed and the need for investment in communities is even greater, it is important to understand the ways in which credit unions impact on their communities so that limited resources can be deployed more strategically for local benefit. Moreover, this knowledge can facilitate the credit union movement in developing its competitive advantage in the market while actively upholding its principle of social responsibility.

The paper begins by providing a general overview of the results of research conducted in 40 credit unions on the island of Ireland. These credit unions ranged in size from very small (the smallest having just 500 members and the next smallest having 1,915) to relatively large in the context of the Irish credit union movement (the largest having 26,458 members) (Table 1). In each of the credit unions, semi-structured interviews were conducted with five staff members, five board members and five committee members. In addition, a key witness within each credit union was interviewed to allow the construction of a profile of each credit union's interaction with its local community. Each credit union was assigned a number to protect its identity in the reporting of results. The paper describes how credit unions have become deeply integrated into their communities and how they impact upon and engage with their communities.

Table 1. Size of credit unions studied

Membership size category	No. of credit unions	% of sample
>20,000	5	12.5%
15,000 – 19,999	4	10.0%
10,000 – 14,999	9	22.5%
5,000 – 9,999	13	32.5%
500 – 4,999	9	22.5%

Towards an understanding of the social impact of credit unions

Credit unions have "deep and abiding connections to the communities in which they exist... and, as social institutions, they usually recognize a responsibility to enhance the lives of those who live within them" (MacPherson, 1999, p.xii).

The social impact of credit unions can be conceptualised in terms of exclusive and non-exclusive benefits. Exclusive benefits are those which accrue exclusively to members, i.e. loans, savings and other financial services. However, the operating principle of social responsibility recognises that all members of a community are potential members of the credit union. Therefore, if a credit union is to adhere fully to this principle, there is an onus on it to work towards the betterment of society within its common bond. This results in the extension of their sphere of influence beyond that of their members, i.e. non-exclusive impacts. Non-exclusive impacts can be incidental – financial wellbeing of individuals contributes to the economic and social wellbeing of their communities – or purposive – practical support and donations to schools and community groups, support for local enterprise initiatives.

The collective impact of credit union services

> *[When] "whole communities have limited access to financial products the process becomes self-reinforcing and an important contributor to social exclusion more generally"*
>
> (Kempson and Whyley, 1999, p.202).

Credit unions have been significant in combating financial exclusion in Ireland, liberating individuals from the grip of moneylenders and encouraging a savings habit (Byrne et al., 2005; 2007; Corr, 2006; Douthwaite, 1996). Their provision of affordable finance to individuals within the community creates a significant collective community impact. By encouraging and facilitating greater personal control over money management, and by increasing the purchasing power of members, credit unions play an important role in promoting individual dignity, self-esteem, and social inclusion within local communities. Because individuals' eligibility for membership of a community-based credit union depends on having some attachment to that community, they are members not only of the credit union but also of the community in which that credit union operates. Consequently, any support that improves the circumstances of individuals in turn benefits the community collectively. As expressed by one volunteer in this study, the credit union "encourages equality of opportunity, thereby increasing harmony within the community" (Committee member, c.u. no.15).

A commonly expressed belief among interviewees was that credit unions are the only means by which some individuals in the community can access legal and affordable credit. As emphasised by one board member of an urban-based credit union, if the credit union closed, "lower income members would be at the mercy of loan-sharks" (Board member, c.u. no.13). A board member from another credit union emphasised the role of the credit union in providing a financial service in "an area where moneylenders were rife, where money management was unheard of . . . [and where the credit union] has instilled prudence and thrift" (Board member, c.u. no.18).

Participating credit unions reported a range of strategies and instruments employed to promote thrift, budgeting, and effective money management by members. These ranged from publicity campaigns and educational seminars to one-to-one advice and referral for debt counselling. For those experiencing financial difficulties, advice on budgeting, the operation of budget accounts, credit plans and bill-paying facilities, all constitute important aspects of the credit union's objective to promote financial capability (Byrne et al., 2010). Credit union policy also promotes good money management: instead of withdrawing from their savings, members are encouraged to borrow within their means and continue saving while repaying their loan.

The services credit unions provide are especially important in the context of cost-rationalisation strategies employed by banking and other services (Byrne et al., 2004). Sokol (2007) emphasises the growing spatial and 'relational' distance between banks and their customers (e.g. low levels of trust, lack of understanding and poor knowledge of personal circumstances) that arises from rationalisation of branch networks and the transition to automated delivery channels (ATMs, online and telephone banking). In contrast, credit unions maintain a permanent presence in their communities. In addition to providing a personal financial service locally, credit unions also offer services such as bill payment facilities, foreign exchange, and international money transfer.

Purposive engagement with the community development agenda

The principle of social responsibility, derived from the more general co-operative principle of concern for community, is operationalised by credit unions through their engagement with other institutions and groups within the local community. This often takes the form of sponsorship and donations, and 'in-kind' supports, such as the provision of meeting rooms or other facilities for community groups. Credit unions also have a role in educating their members and the wider community about money management. Some credit unions have also initiated, or become involved in, enterprise and employment creation strategies (McCarthy et al., 2000; McCarthy, 2011). All of these supports represent direct or purposive engagement with the community development agenda.

(i) Support for local community groups

Credit unions represent an important source of sponsorship for local organisations dedicated to specific social and community development goals. In our study, all 40 credit unions reported making financial contributions to a range of groups and events, including Gaelic games clubs, youth clubs, retirement clubs, People of the Year Competitions, Tidy Towns projects, and local festivals. The value of sponsorship and donations varied significantly among credit unions but an estimated total of €721,295 was contributed by these 40 credit unions to local community groups annually. Assuming a similar rate of investment by credit unions not included in our survey, this would suggest that the combined total annual investment by all community-based credit unions exceeds €8.7 million annually. To a large extent, the selection of projects for sponsorship is based on requests for support from community organisations and, in this context, the approach could be regarded as being more reactive than proactive.

As well as financial support, credit unions provide a range of other practical supports to community groups. One-third of credit unions provided office facilities, such as fax and photocopier, while one-quarter allowed their meeting rooms to be used by local groups. Most significantly, half of all credit unions in the sample identified staff time as a form of support given to community groups. This ranged from knowledge-based supports, such as the provision of speakers to educate local groups about money matters, to skills-based services, such as maintenance of local websites. Other services to the community included the operation of summer job schemes, charity collection boxes, and community noticeboards.

Active engagement with other community development and voluntary organisations can help credit unions to maximise their community impact. A majority (62.5 per cent) of credit unions reported that they were participating in joint ventures or partnerships with other organisations at the time the study was conducted. Their objectives were primarily economic (e.g. low-rent units for local enterprises) and social/civic (citizenship awards, enhancement of local environment, regeneration and restoration projects, youth and senior citizen groups, local housing co-operatives, community centres, community radio service).

Credit unions can play an important role in promoting voluntary service in their local communities. One credit union, for example, organised an annual 'Voluntary Committee of the Year' awards ceremony to recognise the efforts of voluntary groups and to raise their profile in the community. Recognition was awarded in four different categories – community development, charity organisations, sports, and arts and culture – and a special award was made to the overall winner. This type of initiative can foster the voluntary ethos at community level.

(ii) Interaction with schools

Credit unions are acutely aware of the importance of schools as places from which future volunteers and board members can be recruited (McCarthy et al., 1999). Furthermore, raising the profile of the credit union movement among young people is an important mechanism for promoting financial prudence among future generations. Focused on these objectives, credit unions affiliated to the ILCU participate in co-ordinated initiatives which seek to encourage talent and raise the profile of the movement among this segment of the population. These include an annual All Ireland Schools Quiz for primary schools and a poster competition for children and teenagers. In our study, 93 per cent of credit unions surveyed provided some form of donations or sponsorship to local schools. This commonly involved sponsorship of school football teams, talent competitions, grants for computers and other facilities, student bursaries and school book rental schemes. Credit unions also provide opportunities for work experience, educational talks and school visits. These activities forge strong and important links between schools and credit unions, and alert students to the existence of organisations outside the school that work for the greater good of the community. Students also learn that, by working with community-based organisations, they can "feel and believe that they have some control over their situations in the sense of having ability to influence intentionally what happens to them and their community" (Costello, 1984, p.115).

School credit unions can provide an appropriate vehicle for developing good money management techniques from an early age. Furthermore, they provide useful experience to students involved in running the credit union and promote a voluntary ethos. In our study, 45 per cent of credit unions were involved in operating school credit unions. There are mutual benefits for credit unions and schools in the relationships that have developed. Schools gain materially (e.g. donations of computers), academically (sponsorship of debating competitions, school tours), artistically (sponsorship of poster competitions, school choirs) and socially (financial support for school teams and sports days which help to address issues of childhood obesity and physical fitness). The credit unions benefit by gaining access to a potential pool of members and volunteers and, therefore, it could be argued that, as well as supporting and educating the youth of the community, they are also investing in their own futures.

(iii) Supporting local enterprise

Access to low cost, flexible credit is one of the main requirements of micro enterprises. Business lending remains an area that is underdeveloped within the Irish credit union movement. This can be attributed to a lack of expertise within credit unions in relation to assessing loan applications, anxiety about lending large amounts, and factors that make credit unions less attractive vis-à-vis other credit providers, in particular, relatively short repayment schedules and high interest rates, which contribute to limited demand (McCarthy et al., 2000). While credit unions in Ireland often do not provide 'business loans' *per se*, they do consider applications for personal loans for business purposes. Indeed, because of their potential to support local enterprise and stimulate job creation, business loans are a recognised component of the social finance model, which seeks a social dividend as well as a financial return on loans (ILCU, 2005). Despite the limitations outlined above, therefore, the most common mechanism by which credit unions in this study supported local businesses was in the form of loans for business purposes, which were granted by 85 per cent of credit unions in the sample. The current credit crunch means that entrepreneurs are experiencing significant difficulties in accessing credit. If credit unions are to develop this area of business, they will need to ensure that they are equipped with the skills and expertise that will allow them to make prudent decisions (Financial Regulator, 2007). In this regard, one suggestion has been that professional associations and Chambers of Commerce would encourage their members to become volunteers in their local credit unions (Stewart, 2010).

Apart from micro business loans, other direct supports to local enterprise include grants or donations, which are made available to community enterprises for the purposes of job creation by 50 per cent of the credit unions in our study. Twenty-five per cent of credit unions surveyed also provided assistance to local enterprises in the form of office facilities, such as fax and photocopier and 23 per cent provided meeting rooms. This type of support, while very basic, can be highly significant for entrepreneurs who otherwise would have to incur expensive room hire charges and who would find the cost of office facilities prohibitive. Business advice and training were provided by a further 23 per cent of credit unions. These included referrals to local enterprise boards or other business advisory agencies.

Six credit unions (15 per cent) were proactively engaged in local economic development through their involvement in the establishment of enterprise centres. While it is important to respond positively to approaches from individual local businesses, credit unions must also recognise their potential to contribute in a more proactive way to local economic development, particularly in the current economic recession. Co-operation with other local institutions is a key mechanism through which this can be achieved. The potential role of credit unions in developing local economies is illustrated by one example from the West of Ireland, a region which, traditionally, has struggled to attract significant industrial investment. In co-operation with the local Chamber of Commerce, the Town Council and the local Community Development organisation, the credit union was involved in setting up an Area Community Development project. The principal aim of this initiative was to stimulate local job creation. The strategy included the development of an enterprise centre to accommodate mature businesses and to incubate new enterprises. This involved the provision of grant aid, advancing loans to the project company and to some of the new enterprises. The credit union is also involved in the operation and direction of the company.

Other examples of proactive credit union initiatives included the setting-up of a special enterprise loans fund, operated in conjunction with a local development partnership company, which provided seed capital at nominal interest rates for small local enterprises. Another credit union led a successful campaign to secure a tenant for a vacant factory unit and also set up a website to promote its town, especially for tourism. Therefore, the influence of credit unions on their communities extends beyond the voluntary community sector and schools and into the business world. Notwithstanding problems in relation to the ability of credit unions to offer business loans, by providing vital support to small local businesses – many of which mainstream financial institutions are unwilling to assist – credit unions support the local economy by creating and sustaining employment. This in turn has social benefits for the community.

Optimising the credit union difference

The current banking crisis, which has been experienced particularly acutely in Ireland, has led to widespread disillusionment and mistrust of conventional banks (Edelman, 2011). While the crisis is raising increasing concerns about the stability of the credit union movement in Ireland, previous studies have found credit unions to enjoy a higher level of trust than banks; members have regarded credit unions as trustworthy institutions where members' interests are paramount (Amarach, 2009; Power et al., 2011). Moreover, internationally, it has been observed that, despite the global financial crisis, co-operative credit institutions have remained financially sound, continue to enjoy a high level of trust and, as a result, are attracting large volumes of new customers (Birchall and Ketilson, 2009). Credit unions now have an opportunity to capitalise on this favourable reputation as socially responsible financial service providers. The empirical findings of this study illustrate the means by which credit unions can exercise a positive societal impact. While this provides a starting point for credit unions aiming to identify and define their social goals, in order to fully operationalise the principle of social responsibility credit unions need to continually improve their understanding of the ways in which they actually do, and potentially can, improve their local communities.

The process of social auditing or social reporting facilitates organisations in optimising the principle of social responsibility by allowing them to evaluate the impact of their activities on stakeholders – customers/clients/members, suppliers, staff and the wider society and environment. Within the credit union movement, a social audit can facilitate the development of strategic direction by helping each credit union to define its purpose and to develop a better understanding of its members, its community and the organisation itself (Brown, 2000). This in turn can help it to enlarge its appeal to potential members and can form an important component of its growth strategy.

Our study suggests that credit unions that have a formal community impact policy perform better in terms of financial contributions to community projects and initiatives. Although they are guided by co-operative principles, there is no uniform policy to direct how credit unions fulfil their social responsibilities. Only 40 per cent of credit unions (16 out of 40) reported that they had a formal written policy to guide how they impact on their communities. Of the thirteen credit unions that contributed most to community development projects, nine had in place formal community impact policies to guide their investments in the community. Conversely, of the 17 credit unions that contributed least to community development initiatives, fourteen did not have a community development policy.

While not advocating the formulation of policies that are so rigid that they cannot respond to changing needs within the community, it is apparent that the process of examining existing practices, exploring and defining social objectives, and periodically measuring the extent to which these objectives are fulfilled, offers potential for helping credit unions to uphold the principle of social responsibility in a meaningful way.

Because credit unions are run by voluntary Boards of Management, their financial and economic affairs have been particularly closely regulated by the state, even before the advent of more rigorous regulation of the conventional financial services sector. However, credit unions, arguably, have paid less attention to their social obligations. Because of the symbiotic relationship that credit unions have with their communities, it is important that they put in place strategies for managing their interaction with their communities in order to fully exploit the opportunities offered by the current economic downturn. The traditional *ad hoc* approach to engaging with community needs to be addressed. Given the central role that credit unions now play in the lives of their communities, a more structured approach to this issue could yield significant dividends for the wider credit union movement and for society. In the current context of austerity in exchequer spending, people can no longer rely on the state to provide many of the facilities and services required for the economic and social wellbeing of their communities. Ironically, community members seeking to improve their localities will be forced to raise money locally at a time when households are suffering the effects of economic recession. If credit unions are to maximise their contribution to community development, they will need to become more strategic in their deployment of resources.

As a mechanism for developing strategic direction and ensuring inclusive decision-making, one possibility could be a standardised social report (with a significant degree of flexibility built in) conducted by individual credit unions, with support and leadership from key representative organisations (in Ireland, the ILCU and the Credit Union Development Association – CUDA). The provision of a template for social reporting is one way of facilitating the interrelated objectives of optimising social responsibility and marketing the credit union difference.

Conclusion

This paper has outlined some of the ways that credit unions impact positively on their communities. By virtue of their very existence, credit unions contribute to economic and social wellbeing within communities by promoting financial and social inclusion, boosting the local economy, and providing important services. Furthermore, they are engaged with the community development agenda through their involvement with community groups, schools and youth activities, and local enterprise initiatives.

It is acknowledged that conventional financial institutions perform many of the economic and social functions discussed here. However, for banks and other financial service providers, the maintenance of service provision within local communities and the way in which these services are delivered are determined by the primary goal of profit maximisation. Furthermore, sponsorship of community projects is undertaken primarily as part of public relations strategies that aim to enhance market profile. In contrast, for credit unions the social dimension is of equal importance to economic considerations.

The 'credit union difference' derives from their not-for-profit, social orientation. Credit unions are embedded in the social, economic and cultural fabric of their communities, and this embeddedness is reinforced by the concept of the common bond. Instead of having customers, credit unions have members, and this suggests a sense of belonging and ownership that cannot be replicated by conventional banks. Credit unions are run by members of the community for members of the community. These are some of the distinguishing features of credit unions and, as such, represent a key source of competitive advantage. The challenge, however, remains for the credit union movement to promote and exploit its distinctive competitive advantage in a more coherent and organised fashion. This is a process that needs to be managed carefully if credit unions are to contribute to their communities in a more meaningful way, particularly in the context of economic recession. Through research, reflection, policy formulation, and marketing, credit unions can do more to optimise the principle of social responsibility. This in turn can support the mutually reinforcing objectives of social responsibility and sustainable growth.

Notes

1. Approximately 475 credit unions are community-based. The remainder are classified as industrial or vocational (e.g. teachers, musicians, health care providers).
2. 2.95 millions members is equivalent to approximately 50% of the combined population of the Republic of Ireland and Northern Ireland. However, as some people hold membership of a number of credit unions, the membership figure of 2.95 million is slightly inflated.

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Measuring board performance in a credit union

Ted O'Sullivan

Abstract

This paper begins with an introduction to the issue of measuring board performance in a credit union in the Irish context. A discussion on the responsibilities of the board of directors is followed by consideration of how board performance might be measured. Measurement criteria are identified from the literature. A methodology is identified to test the use of these criteria in the Irish credit union context. The results are presented and followed by a discussion.

Key words

Board of Directors, Credit Union, Key Result Area, Key Result Areas, PEARLS, Performance Measurement, Self-assessment, Supervisory Committee

Introduction

The success or failure of a financial institution is directly related to the performance of its board of directors. This has never been more obvious than in today's economic climate where meltdown of financial institutions has become commonplace, frequently occurring as a direct result of failures of their boards of directors. An inability or unwillingness to measure board performance in an objective and critical manner is often at the source of this failure. Ten years in advance of this global banking collapse, the Irish credit union movement had moved to incorporate measurement of board performance into its legislation, requiring, through the Credit Union Act 1997, that periodic reviews of board performance be conducted.

The six hundred credit unions in Ireland are member owned, not for profit, co-operatives. These credit unions have almost 3 million members out of a population of approximately 5 million. This level of market penetration is remarkable and is, in fact, the highest in the world. McKillop *et al* (2006:388) describe the Irish credit union movement as an *undoubted success story*. This high success level results in a corresponding high dependence on credit unions by the Irish for access to credit and financial services. Failure to strictly assess and monitor the performance of the board of directors of credit unions would, then, have disastrous consequences for its membership and, therefore, for the people of Ireland.

In spite of the requirement for measurement of board performance enshrined in the 1997 Credit Union Act, the methods by which this measurement might be achieved are not suggested. This paper aims to address this problem by exploring means by which assessment and measurement of board performance in credit unions might be satisfactorily conducted.

Responsibilities of the board of directors

Much has been written on the responsibilities of the board of directors with the general thrust of the literature suggesting that a good board of directors results in a good enterprise. Garratt (2003) states emphatically that:

> "*An organisation's success or failure depends on the performance of its board* "
>
> (Garratt, 2003: xix)

Yet, while there is general agreement by researchers on the importance of board performance, accord on a common definition of the role of the board is more elusive. Authors differ considerably in their views on what constitutes the actual role of the board with each placing emphasis on different areas. Parnell (1999) sees the role of the board as primarily one of directing the organisation:

> "*...providing the overall guidance and control necessary to keep an enterprise on the path determined by its purpose and objectives.*"
>
> (Parnell, 1999:131)

Garratt (2003) suggests that the role is one of oversight using the analogy of the helicopter to explain his premise:

> "*The board sits at the intersection of the organizational effectiveness and efficiency cycles as the center of the business brain, taking a helicopter view of policy and strategy issues.*"
>
> (Garratt, 2003:35)

Cropp (2005) focuses on the leadership role of the board stating that:

"*Directors should use their position as leaders to ensure that the co-operative remains focused on its vision, purpose, core values, and performance. Boards have a responsibility for understanding the co-operative's business as well as the external environment in which the business operates.*"

(Cropp, 2005:1)

The fact that each of these definitions, in spite of the differences in emphasis between them, is valid in itself highlights the problem that exists for anyone attempting evaluation of board performance.

How to measure the performance of the board of directors?

In an open, market driven economy the standard by which a board's performance is measured is by the principle of **capital market efficiency**. If markets are efficient, then share prices fully reflect the performance of the company, i.e. the board. However, the recent history of companies such as Enron etc., where share values were subject to manipulation, demonstrates that this theory is far from perfect as a measure of board performance.

Since measuring board performance, then, is a problem even in companies that have a quoted share price, what then of the co-operative or enterprise that does not have a tradable share? Again, authors differ widely in their approach to this dilemma. While the literature universally recognises that evaluating the performance of boards of directors is a good thing, a problem arises when seeking a method by which this can be done. Leblanc (2005) recognises that measurement is absent and even doubts the possibility of ever arriving at a model of measurement stating emphatically

"*The measurability of governance? It's not measurable.*"

(Leblanc, 2005:27)

Significantly, however, he succeeds in identifying the absence of board analysis as the missing link which would allow for such a measurement. Chavez (2002) takes a more positive view urging a coherent review of the management structure and personnel:

"*Management evaluation should include a review of salaried managers, officers, committees, and members of the board of directors.*"

(Chavez in Branch and Klaehn, 2002:263)

Parnell (1999), in turn, echoes the opinion of Chavez but goes a step further in the process and proposes a quantifiable method of assessing the performance of the board of a non-profit enterprise or co-operative:

"*Depending on the nature of the co-operative business, it will be possible to identify certain key result areas (KRAs) that are absolutely critical to the success of the enterprise.*"

(Parnell, 1999:141)

The initial identification and subsequent examination of these key result areas should prove invaluable in helping to establish a successful measurement of board performance.

Key result areas (KRAs)

Identification of KRAs suitable for use in performance assessment of boards may be achieved in a number of different ways. One of these is through examination of the experiences of some unsuccessful enterprises. In the world of medicine, many discoveries derive from *post mortem* examinations with findings informing the development of new and more effective procedures for better future outcomes. In a similar way, the application of the *post mortem* method to a business failure, as suggested by Cahill (1997), should not only reveal valuable information on the reasons for that failure but should point to a methodology for earlier diagnosis and, therefore, remedial treatment of serious problems. As Oscar Wilde so elegantly points out:

"*Experience is the name everyone gives to their mistakes.*"

(Wilde, 1892: Lady Windermere's fan, Act III)

In the world of business, an analysis of the experiences of others can prevent repetition of their mistakes and can help to identify the qualities necessary for a successful enterprise. Wilcox (2007) clearly recognises this when he asserts:

"*We believe studying poor financial institutional performance is a superb way to enlighten readers about the qualities of safe and sound credit unions.*"

(Wilcox, 2007:1)

Inevitably, a failed business may be examined and dissected with more clarity and objectivity than a temporary setback in a surviving organisation. Such a failure is defined by Cahill (1997) as follows:

"*Economic failure occurs when the organisation is unable to earn sufficient profits to enable it to* *service its capital structure with an appropriate market rate of return*"

(Cahill, 1997:5)

But Cahill not only defines economic failure, he indicates a means of measuring this failure when he states:

"*Managerial failure reflects the top management and board of directors' poor performance when benchmarked against others in the same industry*"

(Cahill, 1997:5)

This concept of benchmarking against other institutions in the same industry, considered critical by Cahill, provides another important measure of board performance.

Wilcox (2007), in his analysis, concentrates on the area of ratios which he considers a key indicator of performance. He specifies:

"*The following variables were found to be statistically associated with failures of credit unions and commercial banks alike:*

- *Higher ratios (to assets) of net loans, commercial and industrial loans, provision for loan losses, delinquent loans, and non-interest expenses*
- *Lower ratios of capital and return on assets*"

(Wilcox, 2007:6)

The significance of the relationship between ratios and financial performance assessment is well documented.

"*Depending on the nature of the co-operative business, it will be possible to identify certain key result areas (KRAs) that are absolutely critical to the success of the enterprise*"

(Parnell, 1999:141)

Parnell (1999) is clearly of the opinion that KRAs exist for all co-operatives and that these depend on the nature of the business. He states that every director must achieve:

"*Full comprehension of financial and control information, including the concepts of liquidity and solvency...*"

(Parnell 1999:116)

Leblanc (2005) also recognises the link between the board's performance and the financial results:

"*It may well be possible to determine a relationship between board effectiveness and corporate financial performance*"

(Leblanc, 2005:152)

The literature confirms, then, that KRAs must be examined as a yardstick of performance and it appears that in the credit union context, ratios provide these KRAs. In credit unions in Ireland, the CAMEL (Capital, Assets, Management, Expenses, Liabilities) ratios were in use until 2003. These ratios were limited by the fact that the M (Management) ratio was never defined and no agreement was possible on what should be included in this section. In 2003, the Irish League of Credit Unions introduced the PEARLS (Protection, Effective financial structure, Asset quality, Rates of return and costs, Liquidity, Signs of growth) financial ratio system, a system developed and tested by the World Council of Credit Unions (WOCCU). Every three months, each credit union must make a prudential return to the Credit Union Regulator with a copy also going to the Irish League of Credit Unions (ILCU). The League returns a report to its member credit unions. This report contains (i) twenty-seven financial ratios for the most recent prudential return together with (ii) the previous ratios for that credit union, (iii) the average value of each ratio for the movement (iv) a goal value established by WOCCU and (v) a commentary by the monitoring branch of the Irish League of Credit Unions.

The information contained in this PEARLS report is critical to an understanding of a credit union's current position and, therefore, of the performance of its board. The findings of the literature review strongly support the view that careful analysis of this report is most important. KRAs in the measurement of a credit union's success are the twenty seven PEARLS ratios. John Hume in his address to the UCC Summer School 2004 put it succinctly when he declared

"Get the numbers right because the numbers will support the philosophy but if the numbers are wrong the philosophy will not support the numbers"

(John Hume, UCC Summer School 2004)

Self-assessment by boards

Lakey and Hofheimer (2004) show that one of the best ways to improve board performance is by self-assessment: the board of directors assesses its own performance:

"*One of the most significant ways in which a board can strengthen its performance as a governing body is to periodically assess its own performance*"

(Lakey and Hofheimer, 2004:4)

This is a simple and inexpensive option available to a board of directors or a supervisory committee of a credit union wishing to measure and improve performance. The board of directors can step back from its normal humdrum routine and reflect on its overall performance. A more comprehensive self-examination is advocated by Hughes (1999) who shows that:

> "*Boards that regularly engage in forward retreats know that the time spent away from the press of daily responsibilities and tasks can allow the board to challenge assumptions and rethink systems, begin a strategic planning process, tackle difficult issues, forge camaraderie, and improve productivity*"
>
> (Hughes 1999:2)

Such a strategy combined with an examination of the KRAs as suggested above should lead to an honest appraisal of the performance of the board of directors.

Summary of research

In any assessment of the performance of the board of directors of a credit union, the PEARLS ratios fulfil the role of KRAs and the inclusion of the average ratios for the national credit union movement represents the comparison with benchmark companies. When these are combined with board of directors' self assessment of their own performance, we get a useful yardstick for measuring board of directors' performance in Irish credit unions.

Methodology

This paper sought to assess the extent to which the PEARLS ratios and the self-assessment method are being used in measuring board of directors' performance in credit unions in Ireland. In the Credit Union Act (1997), the task of overseeing the performance of the board of directors is reserved to the supervisory committee. Byrne *et al* (2003:9) describe their role succinctly:

> "*The supervisory committee's overall function is to oversee the corporate governance structures in the credit union*"
>
> (Byrne, McCarthy and Ward 2003:9)

Because supervisory committees are required by section 59 of the Credit Union Act (1997) to review the board of directors' performance four times a year, a survey of the supervisory committees of credit unions was undertaken. The supervisory committees were asked about the training done by the board of directors, the use of the PEARLS as KRAs and if self-assessment was being used in their credit union. A questionnaire was administered at the annual conference of National Supervisors' Forum in Ireland (NSF) in November 2008 and one hundred and sixty-two replies were received. The results were entered into the PASW (formerly SPSS) statistical package to facilitate analysis.

Results

The supervisors were asked if the process of assessing the board of directors' performance was a worthwhile exercise. Eighty five percent (85.3%) of respondents said it was worthwhile. The large positive response establishes that the supervisory committees believe in the process and in its merit in the measurement of board of directors' performance.

The next question explored whether the supervisory committee used the KRAs of the PEARLS Ratios in their assessment. The sixty-three percent (63.1%) positive response shows that the importance of these KRAs is grasped by the majority of supervisory committees. But a large minority of thirty-seven percent (36.9%) don't use these KRAs in their assessment of board performance. This is a surprisingly large number when one considers the time and energy that the individual credit union puts into preparing and returning the prudential return, the subsequent work of analysis by the ILCU and the detailed report which is then sent to the member credit union.

To ascertain if boards of directors understand the PEARLS ratios, supervisors were asked how many credit unions had directors who had attended a PEARLS training course. Only twenty-nine percent (29%) of respondents said that directors from their credit union had attended PEARLS training, leaving a large majority of seventy one-percent (71.1%) who had not done so.

The use of the self-assessment by boards of directors was tested by asking if their boards had ever conducted a self – assessment of their own performance. Only seventeen percent (17%) of respondents replied positively suggesting perhaps that this method, though popular in the USA, may not be well known to boards of directors in Ireland.

The questionnaire also requested supervisors to rate the general educational and training commitment of their board of directors on a ten point scale. This resulted in a mean commitment level of 5.3 with a standard deviation of 2.1, suggesting that though there is some commitment to education and training it is not seen as the most important priority. In order to further test this issue, supervisors were asked how many directors had attended training courses in the previous twelve months. This resulted in a mean director attendance rate of 4.16 with a high spread of responses as the standard deviation was 3.86. This indicates that though some credit unions had a high attendance rate by directors at courses, there were others who had little or even no attendance.

Conclusion

It seems that many credit unions do not give the PEARLS ratios the attention they deserve. The analysis and understanding of the PEARLS ratios as KRAs by sixty-three percent (63.1%) is to be welcomed. There are, however, thirty-seven percent (36.9%) of credit unions who do not use these results to inform assessment of the management decisions of the board of directors.

The mean board size of the credit unions surveyed was twelve (12) and the mean number of directors attending courses per year is four (4) approximately. Therefore, about thirty percent (30%) of credit union directors on average attended courses in the past twelve months. But as the standard deviation is high, the percentage of directors attending courses varies widely from credit union to credit union.

Supervisory committees need to put greater emphasis on the education and training performance of their respective boards of directors, perhaps even including it in their assessment report. One is reminded of Watkins (1986:2) who gives *neglect of education* as one of the principal reasons for the demise of many co-operatives. There is a requirement in the Credit Union Act (1997) on boards of directors to perform a training needs analysis. It is clear that the performance of this function needs to be included in the supervisory committee assessment of board of directors' performance.

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Internet banking and Irish credit unions

Donal McKillop and Barry Quinn

Abstract

The purpose of this paper is to examine IT adoption by Irish credit unions. Using probabilistic models, we explore one aspect of IT, that of internet banking technology, and assess the degree to which characteristics specific to the credit union and to its potential membership base influence adoption. Our analysis suggests that asset size, organisational structure being a member of the Irish League of Credit Unions and the loan to asset ratio are all important credit union specific drivers of internet banking adoption. We also find that characteristics of the area from where the credit union captures its members are important. Factors such as the percentage of the population that is employed, the proportion of the population in the age bracket 35 to 44, the proportion of the population that have access to broadband and the level of familiarity with a local ATM facility are all identified as influencing the probability of adopting internet banking.

Key words

Credit Unions, Internet Banking, Technology, Probabilistic Models

Introduction

Irish credit unions are member-owned, voluntary, self-help, democratic, co-operative financial institutions that provide financial services to their members. The first credit union in Ireland was established in 1958, by 2009 there were 424 credit unions and it is estimated that almost 66 percent of the population are now credit union members. Indeed, credit union membership penetration in Ireland is higher than in any other country in the world. Despite this, McKillop et al. (2006) have categorized the Irish credit union movement as being in the transitional development stage, well behind such mature movements as those in the US, Canada and Australia. Classification as a transition movement rests in part with a technological environment which has as yet failed to fully capture the benefits which may accrue to members through the sophisticated utilisation of information technology (IT).

Worldwide, IT utilisation has increasingly been linked with the advancement and success of financial intermediaries. For example, by enabling customers to access services without having to physically visit premises increases customer flexibility and reduces costs. The recent history of technology advancement in the Irish credit union movement has, however, been demonstrated in somewhat of a poor light and has highlighted the sensitive nature of adoption. In the late 1990s, a work programme was established to take responsibility for ATM projects and to knit together the member credit unions' 33 different IT systems into one integrated system to support the spread of ATM services, with the ultimate objective being to enable electronic fund transfer and essentially create a centralized banking system for all credit unions. This project became known as ISIS[1] and was financed by a levy on each credit union payable in two tranches. It was anticipated that the new IT system would be in place by 2000. However, by 2000 the project's anticipated cost had increased dramatically and a number of the largest credit unions withdrew from the initiative with the ISIS project ultimately abandoned in 2001.

Set against this failure to establish an integrated IT system has been the general improvement in IT infrastructure in Ireland.[2] This improvement has encouraged the general population to become much more computer literate and demanding of their financial provider. IT has altered the ways in which customers access services, mainly through automated distribution channels such as the internet, phone-based and other banking access channels. It is also true that for the financial provider IT can yield cost savings in the management of information (collection, storage, processing and transmission), and through substituting paper-based and labour-intensive procedures with automated processes. Given this context it should therefore be of no surprise to learn that credit unions at an individual level have pursued their own IT development programmes with various levels of sophistication and degrees of success.

The purpose of this paper is to examine in more detail IT adoption by Irish credit unions. Using a probabilistic model, we explore one aspect of IT, that of internet banking technology adoption, and assess the degree to which characteristics specific to the credit union and to its potential membership base influence adoption. Our analysis suggests asset size, common bond type, trade association affiliation and a credit union's loan to asset ratio influence the adoption of internet banking technology as does the socio-economic profile of the population from where the credit union draws its membership.

The rest of this paper is structured as follows. Section 2 reviews the literature on technology adoption. Section 3 describes the data set, and details the empirical models used to assess the determinants of internet banking technology adoption. Section 4 presents the results of the empirical analysis while Section 5 summarizes and concludes.

Impact and use of IT in financial services

Technological advances have had a dramatic impact on the structure, operations and economics of the financial services industry. Technological progress is often cited as the main, if not the most important, driver of change in the banking industry. Naturally, developments in information collection, storage, processing, transmission and distribution technologies have a major impact on many aspects of banking activity. IT developments affect financial services in two main ways. First, they contribute to reducing costs associated with the management of information (collection, storage, processing and transmission), mainly by substituting paper-based and labour-intensive procedures with automated processes. Second, they alter the ways in which customers have access to services and products, mainly through automated distribution channels such as internet, phone-based and other banking access channels. Engagement with IT has led in many cases to improvements in bank profitability primarily via increased revenues from service charges, or through lower processing costs (Hernando and Nieto, 2007; De Young et al., 2007).

Patterns of internet banking adoption by banks have received some attention in the academic literature.[3] Furst *et al* (2000) use multivariate logit regressions to identify factors driving the adoption of internet banking by US banks. Institutions that incurred high fixed costs relative to net operating revenues, were members of a bank holding company, or were located in an urban area, were more likely adopters. Courchane *et al* (2002) examine the theoretical decision to invest in internet banking using a two-stage real options framework. Bank size, industry concentration and bank location were significant determinants of the probability of adoption. Nickerson and Sullivan (2003) suggest US banks are more likely to adopt internet banking where uncertainty over the level of demand is low. Sullivan and Wang (2005) find that the adoption of internet banking was slower in US states where average income is low, where there is a scarcity of internet access, where financial institutions are older, and where average bank size is smaller. Fuentes *et al* (2006) find that banks are more likely to adopt transactional internet banking when competition is intense, and when rival banks have already adopted. Thulani and Tofara (2009) explore the extent of adoption and usage of internet banking by commercial banks in Zimbabwe.

Overall, the results show that while the majority of banks have adopted internet banking, usage levels remain low by customers. Arnaboldi and Claeys (2010) examine the reasons for banking groups to either own an internet bank or provide an internet portal. On a panel of the 60 largest EU banking groups over the period 1995-2005, they find that banks with a heavy cost structure and a large market share in client deposits and noninterest activities are more likely to introduce internet banking. Concentration in the banking market favours adoption of internet banking although in some markets, like France or Italy, mergers and acquisitions have been an easy way to acquire small internet banks. They also find that the performance of the banking groups with an internet bank is poor in that it has mainly created additional costs.

The literature on technology adoption by credit unions is exclusively focused on the US credit union sector. Ono and Stango (2005) examine the factors that influence the decision to outsource information technology services. The decision to outsource is associated with asset size, and the diversity of the credit union's product offerings. Using a game-theoretic model, Borzekowski and Cohen (2005) find that the propensity to outsource is increasing in the number of other credit unions in the same geographic location that also elect to outsource. Dow (2007) examines the adoption of web and computer based banking for US credit unions over the period 2000-2003 and find that larger credit unions are more likely to adopt new technologies earlier than their smaller counterparts. A survey by Callahan and Associates (2007) suggests that technology is still very much at the forefront of US credit unions attempts to retain and increase membership, enhance competitiveness, improve efficiency and improve member services. The ratio of IT expenditures of operating expenses exceeded 10% for over 40% of credit unions sampled with E-statements identified as the technology that most improves both member services and efficiency.

Dandapani *et al* (2008) consider how the internet affects the performance of federally chartered credit unions for the period 1999-2006. They find that offering web access increases operating expenses but adopters still maintained the same average profitability to that of non-adopters. There was also some evidence of increased asset growth in credit unions that offered web accounts. Goddard et al (2009), using a proportional hazard function, consider the determinants of a US credit union being acquired and conclude that the risk of acquisition is greatly increased by a credit union's lack of internet sophistication. Damar and Hunnicutt (2010) study the determinant of internet banking adoption within a consumer decision making framework. They conclude that organizational form as well as size may be critical in the adoption of new technology.

Research data

In September 2008, we accessed all credit union websites in Ireland and assessed their functionality in terms of three levels of internet technology adoption. At the first (lowest) level, an *informational* website displays general information on interest rates, and contract details. At the second (intermediate) level, an *interactive* website allows members to request information on share and loan balances, to request statements and also accepts applications for membership, loans or share accounts. Finally, at the third (highest) level, a *transactional* website also allows members to complete transactions such as paying bills, make loan payments or deposits, and transfer funds between accounts[4]. In terms of the empirical model, we do not differentiate in terms of website functionality rather we divide credit unions into two categories those with a website and those without (limited dependent model) but thought it useful to differentiate in this data section between different levels of web sophistication.

In Table 1, we profile the web-based functionality of Irish credit unions by credit union size (small credit unions – assets less than €10m; medium credit unions – assets between €10m and €40m; and large credit unions – assets greater than €§40m). From Table 1 we note that of the 415 credit unions in our sample, 247 do not have a web presence while 168 have a live web site of varying degrees of sophistication. From Table 1 we note that the overall adoption rate of web-based facilitation for members increases with credit union size. Furthermore, larger credit unions have a greater proportion of *transactional* websites suggesting that as a credit union grows it also expands the range of services on offer to members by way of IT.

Variables important in explaining the adoption of a web-based facility are in part dictated by the literature review and may be categorized as either specific to the operational characteristics of the credit union or to the profile of the population from where the credit union draws its members. All credit union specific variables are lagged by one year due to limitations in the dataset. In some instances, this helps to mitigate against problems that may arise due to reverse causality with respect to IT adoption.[6]

Key variables

The variables specific to the credit union are:

(i) Asset size, as proxied by the natural log of total assets (LNTA). It is expected that larger credit unions are more likely to be adopters of new technologies, see for example, Dow (2007) and Dandapani et al. (2008).

Table 1. Credit Union Asset Size as an Influence on Website Adoption

	Small	Medium	Large
No Website	114	103	30
Informational	6	32	20
Interactive	2	15	6
Transactional	6	26	55
Total Websites Adopted	14	73	81
Adoption Rate[5]	4.69%	14.77%	49.55%

(ii) Organisational structure, a dummy variable is used to distinguish between credit unions structured around an occupational common bond and those based upon a community common bond (OCCUP =1 if occupational; 0 otherwise). Occupational credit unions are more like to adopt internet technology. The demographic nature of an occupational credit union, with a larger proportion of members being employed and therefore presumably better educated, may suggest a more technologically literate membership.

(iii) Location a dummy variable is used to distinguish between urban and rural credit unions (URBAN = 1 if urban; 0 otherwise). Urban credit unions are more likely to adopt internet technology. Superior connectivity due to an increase in IT infrastructure in urban areas may suggest a membership base which has more familiarity with the internet than their rural counterparts.

(iv) Affiliation, a dummy variable is used to distinguish between credit unions affiliated to the Irish League of Credit Unions (ILCU) and those that are not (ILCU = 1 if affiliated; 0 otherwise). Byrne (2006) notes that there is a renewed attempt by the ILCU to promote an integrated technology solution, consequently ILCU credit unions may be more likely adopters.

(v) Labour expenditure, a variable (LABOUR) is constructed to represent the proportion of total expenditure that is attributed to labour. With the adoption of a new technology in an industry which uses non-expert volunteers in their daily business operations, there may be a gap in staff's IT knowledge. New appointments with IT experience would be required. Thus an increase in the labour expenditure of a credit union may coincide with an increase in the likelihood of adoption.

(vi) Diversification, a variable (DIVERS) is created which represents the proportion of a credit union's income that is generated from non-interest sources. For banks DeYoung et al. (2007) find that adopting a new technology had a positive impact on non-interest income as banks increase profitability through fees generated from online activities. In that Irish credit unions through regulation are highly constrained in the range of ancillary services they can offer, this variable may not prove significant.

(vii) Loan book, a variable (LTA) is created which represents members' loans as a proportion of total assets. Irish credit unions operate within a strict business model based on principles set out by the World Council of Credit Unions (WOCCU), which has traditionally seen members' loans as their main earning asset[7]. As such, while in banking a low loan to asset value indicates excess liquidity, in the credit union context it also represents low earning potential. Therefore a high loan to asset ratio is indicative of a financially healthy credit union with high earnings potential. The more productive a credit union, the more surplus available for investment in new technologies to further improve such productivity.

The variables which profile the population from where the credit union draws its members are created by using 2006 census data. Each variable is a percentage measure representing the proportion of that specific characteristic in relationship to the total number of census respondents. The variables are:

(viii) Employment status, a variable (EMP) is created representing the proportion of potential membership of the credit union that is employed. Bauer and Hein (2006) argue

> *"the more one earns, the more likely that a computer has been purchased, reducing the marginal cost of internet banking"*

Lee et al. (2008)

argue that the less affluent may be less likely to be user of e-banking technologies.

(ix) Age, a variable (GENX) is created which represents the proportion of the potential credit union membership that is between the ages of 35-44 inclusive. Generation X (35-44 year old) is perceived not to be as technologically savvy as compared to Generation Y (19-34 year old) cohorts. Kennickell and Kwast (1997) note that those under the age of 35 are more likely to use PC banking and ATMs than older cohorts.

(x) Accessibility, a variable (BBAND) is created which represents the proportion of the census respondents that have access to broadband internet. An increase in broadband accessibility in an area can be expected to have a positive impact on the likelihood of internet technology adoption, Sullivan and Wang (2005).

(xi) Familiarity, Bauer and Hein (2006) and Kim et al. (2006) show that familiarity with similar but older technologies improve the chance that customers will adopt internet banking. A dummy variable is used to distinguish between credit unions with a local ATM facility and those without (ATMLOC08 =1 if local ATM facility; 0 otherwise).

(xii) We include a variable (FEM) which represents the proportion of the potential credit union membership which is female. We have no a priori expectation with respect to this variable.

(xiii) We create a variable (COMPEDU) which represents the proportion of third level educated people who have a computer – based qualification. Lee et al (2008) found that the higher educated have an increased familiarity and experience of internet technology.

Methodology

In economic terms we model the propensity of a credit union to adopt internet banking given a set of individual characteristics. Formally we define the model as:

$$Y_i = \begin{cases} 1 & \text{if and only if } y_i^* > 0 \\ & \text{otherwise} = 0 \end{cases} \qquad \text{Outcome Equation} \ (1)$$

where

$$y_i^* = \propto + \beta X_i + \delta D_i + \varepsilon_i \qquad \text{latent Adoption Index function} \ (2)$$

Equation (1) is what is actually observed while equation (2) is known as a latent regression and can be thought of as the unobserved propensity to adopt, where X_i is a vector of lagged continuous explanatory variables, D_i is a vector of lagged dummies variables and ε_i captures the unmeasured characteristics that affects the propensity to adopt for the i[th] credit union. Our observation mechanism is thus-

$$Y_i = \begin{cases} 1 & \text{if } \varepsilon_i > -\propto - \beta X_i - \delta D_i \\ 0 & \text{if } \varepsilon_i < -\propto - \beta X_i - \delta D_i \end{cases} \qquad (3)$$

In terms of a probability model

$$Prob(adopt) = Prob(Y_i = 1) = Prob(\varepsilon_i > -\propto - \beta X_i - \delta D_i)$$

$$Prob(not\ adopt) = Prob(Y_i = 0) = Prob(\varepsilon_i < -\propto - \beta X_i - \delta D_i) = 1 - Prob(Y_i = 1) \ (4)$$

As we are now dealing with a non-linear probability density function, we use maximum likelihood estimation to produce estimators which are asymptotically efficient and consistent. Such estimation requires explicit specification of a functional form of individual probability of which the most popular are the normal and the logistic distributions. Both distributions are symmetrical in nature, with the latter producing a probit model and the former producing a logit model. In a reasonable sample both models produce similar results.

Elasticities and Marginal Effects

The coefficients from the probit and logit models are difficult to interpret because they measure the change in the unobservable y* associated with a change in one of the explanatory variables. In essence, the estimated coefficients do not have a direct economic interpretation. Measures that are more useful are the elasticities and the marginal effects. Elasticity gives the percentage change in the probability of a success in response to a one percent change in the explanatory variable and is obtained using partial derivatives. In this analysis we report a scale free measure of the proportionate effect on the probability of adoption due to a proportionate change in the regressor.

The marginal effect of an explanatory variable on the dependent variable is a function of it and the explanatory variable. The marginal effect gives the percentage change in the probability of a success in response to a one unit change in the explanatory variable. Again we resort to the use of partial derivatives with estimates of the marginal effects calculated by rescaling the estimated coefficients. In that the marginal effects are different for different observations the problem of what to report arises. We have chosen to estimate the difference between the estimated prob (Y=1) before and after some typical change. We report the marginal effects in two forms, at the mean of the explanatory variables (this can be thought of as the marginal effect for a typical credit union) and with the individual marginal effects averaged across the sample (this can be thought of as the marginal effect for the full population).

Results

Table 2 presents the estimation results and some diagnostics tests for the probit and logit models. In the estimation we use a robust variance-covariance estimator so that we can adjust for the potential dependence between observations due to some unobserved firm specific variable, eg technological ability. In accordance with theory each model produces different coefficient results but in general the coefficients tell a qualitatively similar story about the influence of each regressor on the probability of adoption.

Comparison of the models using the R^2 measures shows a pronounced improvement in the explanatory power of the logit model relative to the probit model using the McKevley-Zoviano R^2 (0.85518 compared to 0.7449) but a more minor improvement when the McFaddens R^2 is used (0.345 compared to 0.344). It is also the case that the fit diagnostics present quite different predictive power profiles, the McKevley-Zoviano R^2 indicates that predictive power is extremely good (85% and 75%) but the McFaddens R^2 predictive power at 34% is at best average. Also reported is the likelihood ratio test which is similar to the F test in regression. The reported results indicate that the null hypothesis that all coefficients are zero can be rejected for both models.

In Table 2 we have highlighted at the 1%, 5% and 10% levels those explanatory variables which prove significant influences on whether a credit union adopts internet banking. In terms of the credit union specific characteristics the variables which prove important are asset size (LNTA), organisational structure (OCCUP =1 if occupational credit union), being a member of the trade body the Irish League of Credit Unions (ILCU =1), and the proportion of a credit union's asset base held in the form of loans (LTA). In each instance the coefficient is positive which implies that larger credit unions, occupational credit unions, those affiliated to the ILCU and those with a greater loan to asset ratio are more likely to adopt internet banking.

A number of the variables utilised to profile the population from where the credit union draws its members also prove significant. These include the percentage of the population that is employed (EMP), the proportion of the population in the age bracket 35 to 44 (GENX), the proportion of the population that have access to broadband (BBAND), and familiarity, with a local ATM facility (ATMLOC08 =1 if local facility). With the exception of GENX all coefficients are positive. Our results imply that credit unions which draw members from a population with a greater percentage in employment, with more access to broadband, have familiarity with a local ATM and with fewer in the age bracket 35 to 44 are more likely to adopt internet banking.

Table 2. Estimation Results and Diagnostics Tests

Parameters	Probit®		Logit®	
CONSTANT	-18.87791***	(0.00000)	-33.23699***	(0.00000)
LNTA	0.77345***	(0.00000)	1.33291***	(0.00000)
OCCUP	0.64449**	(0.04639)	1.23376**	(0.03065)
URBAN	-0.15627	(0.42608)	-0.23274	(0.48241)
ILCU	0.85752	(0.11032)	1.57528*	(0.06767)
LABOUR	-0.00093	(0.90798)	0.00051	(0.97132)
DIVERS	-0.00078	(0.93301)	-0.00009	(0.99580)
LTA	0.01652*	(0.06070)	0.02959*	(0.05205)
EMP	0.03807**	(0.01818)	0.06717**	(0.01419)
GENX	-0.08092**	(0.04760)	-0.13223*	(0.05897)
BBAND	0.02514***	(0.00868)	0.04217***	(0.00884)
ATMLOC08	5.21570***	(0.00000)	16.84178***	(0.00000)
FEMALE	0.04876	(0.25383)	0.08965	(0.25221)
COMPEDU	0.01076	(0.74361)	0.01361	(0.80679)
N	415		415	
McFaddens R^2	0.344		0.345	
McKevley-Zaviona R^2	0.74490		0.85518	
Wald $\chi^2_{(\beta1=\beta2...\beta k=0)}$	1187.75748		1923.77124	
P-value	0.00000		0.00000	
Log Likelihood	-183.78440		-183.36548	

P-values in parenthesis (* p<0.10, ** p<0.05, *** p<0.01) ®Adjusted for latent firm heterogeneity

As detailed in the methodology section, a full interpretation of the coefficient estimates of the explanatory variables can only be revealed through computation of their marginal effects and/or elasticities. In Table 3 we provide the estimated results for both. Consider first the marginal effects. These give the percentage change in the probability of a success in response to a one unit change in the explanatory variable. They are reported in two forms, firstly at the mean of the explanatory variables (marginal effect for the typical credit union) and secondly with the individual marginal effects averaged across the sample (marginal effect for the full population). Furthermore, it should be noted that when explanatory variables take the form of a dummy variable, and for ease of exposition we have highlighted these in Table 3 by adding 'D', the marginal effects are interpreted as the change in the probability of adoption for a discrete change in the dummy variable from zero to one.

Table 3. Marginal Effects and Elasticities

	Marginal Effects at the Mean		Average Marginal Effects		Elasticities	
Parameters	**Probit**	**Logit**	**Probit**	**Logit**	**Probit**	**Logit**
LNTA	0.30543***	0.33221***	0.19362***	0.19346***	0.68912***	0.62955***
	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)	(0.00000)
OCCUP [D]	0.25123**	0.27596***	0.16587**	0.18357**		
	(0.03389)	(0.00923)	(0.04093)	(0.02375)		
URBAN [D]	-0.06165	-0.05794	-0.03843	-0.03326		
	(0.42528)	(0.48130)	(0.41884)	(0.47704)		
ILCU [D]	0.28684**	0.34243**	0.18441**	0.19201**		
	(0.03131)	(0.01112)	(0.04531)	(0.01679)		
LABOUR	-0.00037	0.00013	-0.00023	0.00007	-0.01974	0.00575
	(0.90799)	(0.97132)	(0.90802)	(0.97132)	(0.90794)	(0.97133)
DIVERS	-0.00031	-0.00002	-0.00019	-0.00001	-0.02023	-0.00119
	(0.93301)	(0.99580)	(0.93301)	(0.99580)	(0.93299)	(0.99580)
LTA	0.00652*	0.00738*	0.00414*	0.00430**	0.71982*	0.68354*
	(0.06009)	(0.05267)	(0.05691)	(0.04712)	(0.06558)	(0.06008)
EMP	0.01504**	0.01674**	0.00953**	0.00975**	1.90049**	1.77731**
	(0.01806)	(0.01436)	(0.01505)	(0.01088)	(0.02002)	(0.01735)
GENX	-0.03196**	-0.03296*	-0.02026**	-0.01919*	-1.01760**	-0.88146*
	(0.04753)	(0.05904)	(0.04578)	(0.05674)	(0.04963)	(0.06177)
BBAND	0.00993***	0.01051***	0.00629***	0.00612***	0.42320**	0.37637**
	(0.00853)	(0.00901)	(0.00786)	(0.00776)	(0.01039)	(0.01175)
ATMLOC08 [D]	0.65327***	0.66836***	0.60555***	0.60900***		
	(0.00000)	(0.00000)	(0.00000)	(0.00000)		
FEMALE	0.01926	0.02234	0.01221	0.01301	2.16423	2.10937
	(0.25358)	(0.25268)	(0.25071)	(0.24822)	(0.25631)	(0.25810)
COMPEDU	0.00425	0.00339	0.00269	0.00197	0.06548	0.04391
	(0.74365)	(0.80679)	(0.74392)	(0.80690)	(0.74347)	(0.80679)

P-values in parenthesis (* $p<0.10$, ** $p<0.05$, *** $p<0.01$)

In Table 3, the calculation of marginal effects at the mean of the explanatory variables consistently estimates the magnitude of such effects to be somewhat greater compared to the intuitively more appealing observation specific marginal effects averaged across the sample. As in Table 2, the magnitude of the effects are broadly similar for both the probit and logit models. Concentrating on the marginal effects averaged across the sample we note that a 1% change in asset size (LNTA) increases the probability of adoption by 19% while an increase of 1% in the loans to asset ratio (LTA) increases the probability of adoption by only 0.04%. Occupational credit unions (OCCUP) have a 17% or 18% increased probability of internet banking adoption relative to community credit unions while being affiliated to the ILCU increases the probability of adoption by 18% or 19%.

For the variables utilised to profile the population we can see that a 1% increase in the proportion of the population that is employed (EMP) increases the probability of internet banking adoption by 1%. The probability of adoption increases by 0.06% with a 1% increase in the population with broad band access (BBACCESS) but falls by 2% with an increase in the proportion of the population which falls into the age bracket 35 to 44 (GENX). Those credit unions with ATM facilities (ATMLOC) have a 61% increased probability of internet adoption. This latter result is perhaps of no surprise in that ATM introduction is in itself a sizeable technological investment and is indicative of a credit union which is embracing the capabilities of technology.

Elasticity estimates are also reported in Table 3. These measure the percentage change in the probability of success in response to a 1% change in the explanatory variable[8]. It is not appropriate to calculate elasticities when the explanatory variable is dummy in form. Again, the magnitude of the elasticities is broadly similar for both the probit and logit models. The profile detailed in Table 3 broadly maps onto our previous discussion of marginal effects. Of the six elasticities identified as significant we note that the probability of adopting internet banking technology is most sensitive to changes in the number of those employed in the credit union's catchment area.

Summary and concluding comments

In this analysis, we present a snapshot of IT adoption by Irish credit unions at a point in time, that of September 2008. Our analysis is somewhat blunt in that we simply differentiate between credit unions which have adopted one specific form of technology, that of internet banking, and those that have not. We recognize that there are various levels of sophistication of internet banking which are not explored in this particular study although such an analysis will form the basis of future empirical research.

Our analysis suggests that asset size, organisational structure, being a member of the ILCU and the loan to asset ratio are all important credit union specific drivers of internet banking adoption. We also conclude that characteristics of the area from where the credit union captures its members are important. Factors such as the percentage of the population that is employed, the proportion of the population in the age bracket 35 to 44, the proportion of the population that have access to broadband and the level of familiarity with a local ATM facility are all identified as influencing the probability of adopting internet banking.

These results point us towards the view that the decision by a credit union to adopt internet banking is an interactive process driven by some factors under a degree of control by the credit union, for example asset size, but also others outside its control, notably members with access to broadband. These outside factors are however becoming much less of a general problem for credit unions. A benefit of Ireland's prosperity is the significant investment in IT infrastructure by government. The 'Fibre Optic Metropolitan Area Networks' project, with its objective of permitting open access to private enterprise of 'always on' broadband, has coverage of almost 93 towns in Ireland. Consequently in the future few credit unions will be less hindered in their decision to adopt technology by outside factors.

The question then becomes how much of an obstacle are those factors specific to the credit union. We would suggest that these factors are indeed problematic. For example, 55 percent of Irish credit unions have an asset base less than €10 million. Operating at such a scale suggests significant investment in technology is not feasible for many and even if it were the credit union may not be in a position to fully exploit the benefits of the acquired technology. One is therefore left with the thought that the future for Irish credit unions is in the creation of a movement-wide integrated IT solution for the provision of financial services and products to members. Following such an approach should enable Irish credit unions to capture the benefits which have accrued to credit unions in the mature movements of the US, Canada and Australia and where technological sophistication is now on a par with that provided by other retail financial organizations.

Notes

1. ILCUTECH Standard Information System
2. In 2004, the Irish Government sponsored infrastructure project *Fibre Optic Metropolitan Area Networks* was introduced aimed at permitting open access to private enterprise of 'always on' broadband. Phase I of this project saw the installation of fibre optic networks in 27 provincial towns with Phase II currently in the process of adding a further 66 towns.
3. Other IT adoption patterns examined in banking include: ATMs (Hannan and McDowell, 1984; 1986; Saloner and Shepard, 1995); Automated Clearinghouse Settlement Systems (Gowrisankaran and Stavins, 2004); Credit Scoring Technologies (Akhavein et al., 2005); Real Time Gross Settlement Systems (Bech and Hobijn, 2006); and Debit Cards and Electronic Giro Transactions (Bolt et al., 2008).
4. McKillop and Quinn (2010) provide more details on the products services and functionality of these differing forms of internet banking.
5. Adoption Rate equals number of credit unions of this characteristic with a website/total number of credit unions with this characteristic expressed as a percentage.
6. For instance in the size variable (assets) there is a possibility of reverse causality; as a firm adopts a new technology its innovative nature reduces overheads which in a co-operative context may lead to lower product prices and thus faster asset growth encouraging economies of scale. A lagged size variable may go some way to capturing the one-way relationship between size and the decision to adopt.
7. The World Council of Credit Unions PEARLS ratios are financial performance measures that can be using to guide credit union management. WOCCU argues "that credit unions that maintain 70 to 80 percent of their total assets in the form of loans *(ILCU guidance is in excess of 70 percent)* have the greatest opportunity to maximise returns on these productive assets, while providing their members with the credit services they seek".
8. Note that in the case of the variable LNTA we have expressed it as the natural log of total assets hence the elasticity figures for LNTA are in fact semi-elasticity calculations.

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Credit Union Restructuring: Don't forget the member!

Noreen Byrne, Olive McCarthy, Michael Ward & JJ McMurtry

Abstract

It is recognised in the marketing literature that services consist of core and relational dimensions, and in a long term customer relationship, the relational dimension can give competitive advantage to a business. One of the gaps in the credit union literature is a discussion on the impact of credit unions mergers on this key competitive advantage. And when member value is discussed, it tends to be confined to the core product aspect such as increased range of services and better rates rather than relational aspects. The focus of this paper is on the interplay between core product and relational dimensions in the member preferences around the future restructuring of the movement. It was found that credit union members clearly value their relationship with the credit union and are not willing to trade the local nature of the credit union as they know it, for increased services.

Key words

Credit Unions, Ireland, Member Relationship, Mergers, Federated Models

Introduction

The Irish credit union movement is about to embark on a major restructuring programme. The main focus of this paper is to attempt to open a debate about the role of the member in that process and its potential impact on the credit union-member relationship. The authors have taken this angle for two reasons: firstly because of a perceived gap in the existing academic literature on credit union rationalisation and secondly, because of the current praxis in Ireland.

In terms of current praxis, while it is generally accepted that restructuring is necessary, the debate so far has been driven by the needs of parties external to the general credit union membership[1]. A far wider debate is needed which includes the voice of the members and which considers a range of restructuring models. There is also a need for discussion on the impacts of various models of restructuring beyond initial stabilisation and focussing on the longer term impacts on members, the business model of the credit union and the very nature of credit unions as a community banking movement. The focus of academic literature is mainly on the impact of scale/mergers/restructuring on credit union efficiency. The impact on members, service to members and the member relationship is rarely discussed, except perhaps through the lens of efficiency.

To help us in our understanding of the credit union-member relationship, the paper first draws on the relationship marketing and psychological ownership literature. This section concludes by outlining the key aspects of the relational infrastructure required for the development of a strong member-credit union relationship. The paper then explores the credit union literature on restructuring in terms of how it deals with the impact on the credit union-member relationship. This is followed by a description of the research method employed to investigate the role of the relational in the preferences of members for future structures in the credit union and the findings from the member survey. It concludes with a discussion of the findings and recommendations for further research.

Credit union-member relationship

It is now well recognised in the relationship marketing literature that consumer value includes both the core product or service and a relational dimension (Berry, 1983, 1995, 2002; Bitner, Brooms & Tetreault, 1990; Grönroos 1997, 1998, 2004; Iacobucci & Ostrom 1993). In terms of financial services, the core could be the loan product and the interest rates and the relational could be the trustworthiness of the service. It is argued that for long term consumers, particularly within a services context, the relational dimension may be of even greater importance (Grönroos 2004; Ravald & Grönroos, 1996). In a credit union context, Goldman (2011) found that credit union members' loyalty is derived from relational aspects such as empathy, assurance, and responsiveness more so than core service factors such as convenience, rates, and products/services. Particularly in services, the relational component can provide the key competitive advantage for the organisation (Heskett et al. 1994; Rowe & Barnes, 1998; Department of Jobs, Enterprise & Innovation, 2012). This paper argues that in the case of credit unions, the key strength is not the core product but the ability to build a close and long term relationship with the member. We believe that this is true in credit unions even more so than it is in conventional organisations.

To develop a long term relationship with the member/consumer, the organisation must move beyond the core product to a point where the *relationship* becomes the centre point of the marketing strategy as the core product only "exists at one given point of time" and does not evolve in an on-going relationship" (Grönroos, 2004:102). In this process of relationship building and value creation, the role of the interface between the organisation and the consumer is highlighted. This interface can be on a continuum moving from transaction based (short-term focus with limited interface) to relationship focused (long-term with an interface that is of substantial and strategic importance) (Grönroos, 2004). Services tend to require a relationship focused approach (Berry, 1995; Paulin, Ferguson & Payaud, 2000). What are the characteristics of the consumer-organisation interface in such a context?

Lindberg-Repo & Grönroos (2004) highlight the importance of strategic communication and define three modes of communication: *planned communications, contact creation and connectedness*. While the first two forms of communication are referred to as low to moderate levels of interaction, the third, *connectedness*, involves a high level of interaction (Lindberg-Repo & Grönroos, 2004). The prerequisite for connectedness is a "sense of equality and mutuality between parties" expressed through "interactive dialogue as an iterative process" (Wägar, 2007:32). Loyalty and trust are built though contact and connectedness modes of communication which require more "direct communication, interactivity and participation by the customers" (Lindberg-Repo & Grönroos, 2004:236) and which are more guided by the consumer rather than the organisation, resulting in *outside-in* rather than *inside-out* communication (Grönroos, 2011).

Hence, the interface is the close contact between the organisation and the consumer to reach a place where the consumer feels it is no longer necessary to *explain themselves* (Grönroos, 2004).

This type of *connectedness* would appear to be a characteristic of the credit union-member relationship, where it is widely recognised that there is a close bond between the credit union and its members (Goldman, 2011; Hammond-Ketilson & Brown, 2011, McCarthy, 2005, Fairbairn, 2003; Byrne et al, 2006; 2010).

Another important characteristic of credit unions is that they are member-owned and controlled co-operatives. Jussila & Tuominen (2010) bridge the nature of ownership and the linkage between the members and the co-operative through the concept of psychological ownership *(the feeling that the co-operative is mine and part of me)*. Using Pierce et al (2001) classifications, they outline the routes to *psychological ownership as control, self-investment and intimate knowledge* of the organisation. While the first two routes (control and self-investment) are closely aligned with the nature of ownership in the co-operative and member participation, the last route, *intimate knowledge*, would appear to be closely aligned with the concept of *connectedness* in the relationship marketing literature.

Tuominen, Jussila and Saksa's (2006) discussion of locality from the perspective of co-operative leaders, highlights the relationship between this type of connectedness and local embeddedness. These authors describe co-operatives as local institutions which have a clear geographic boundary and are deeply embedded within the locale in which they operate. This is summed up well by one of their research participants from the Co-operative Banking Group, who stated that "the ideal area of operation for a co-operative bank has been defined as the area *that can be seen from the church tower"*. Jussila & Tuominen (2010:29) highlight a link between locality and two key motivators of psychological ownership, namely *place* and *self-identity*. It can be argued that a deeply embedded local organisation has greater potential to influence the sense of connectedness felt by the members than one which is less locally embedded.

Relational infrastructure

Both the literature on relationship marketing and the psychological ownership literature highlight the importance of the interface between the organisation and the consumer and the co-operative and the member. This interface must not only facilitate the core service delivery but must also enhance the relational dimension. As indicated earlier, the important aspect of a relational interface is an interactive communications interface which is based on mutuality, equality and dialogue between parties and which creates a sense of connectedness. This is greatly facilitated by local embeddedness.

Irish credit unions are currently about to embark on a major restructuring programme which will have an impact on these relational interface aspects. The two models normally put forward for restructuring are mergers and federated networks. Both of these restructuring models result in different structural outcomes, particularly at a local level. Hence it is useful to present a brief description of these models.

In a merger situation, control and decision making inevitably move to a bigger entity. There will always be one dominant credit union in a merger arrangement, and the other, often weaker credit union, will transfer their engagements to the dominant credit union. For the credit union that transfers, the strength of the local presence will often naturally diminish. There will no longer be a board of directors comprised entirely of local members, although there may be some representation on the board of the new entity. Decision making will no longer be carried out locally but in the new main office which may be several miles away. This will naturally diminish the relationship somewhat for the members of the acquired credit union.

In contrast, a more collaborative model, such as a network or federation of credit unions, will standardise services centrally but local decision making will normally remain intact. Each credit union will remain as an entity in its own right with its own board of directors, credit committee and so on. Interestingly, Branch (2011) demonstrates that some credit union movements, such as the Polish SKOK and the Brazilian SICREDI have focused on collaborative models in order to overcome the limitations of mergers. Thus, a collaborative model may well achieve both scale and local presence – centralisation and decentralisation (Gray & Stevenson (2008) – and may mean "getting the best of both worlds" (Ward et al, 1982:20). In this situation, there is still an embedded local presence where decision making is still at a local level, so the *connectedness* is still intact and may even increase as the local entity can now concentrate more fully on the relational, as more standardised aspects are centralised. The next section will explore the extent to which existing literature on credit union restructuring incorporates a member relationship dimension.

Credit union-member relationship and restructuring

Most of the literature on (and practice of) credit union restructuring focuses on mergers with an emphasis on efficiency gains/losses. However, as indicated by Bauer et al (2009), it cannot be assumed that improved efficiency will automatically lead to member benefit, as it may be expropriated by management. However, improved efficiency does have the potential to lead to improved services and hence can contribute to the overall member-credit union relationship. Generally, it is assumed in the credit union literature and in practice that mergers over other models such as federated networks are the best route towards increased scale and efficiencies. However, this may not always be the case. The results of research on overall impact of mergers on cost efficiencies appear to be mixed (Ralston, Wright & Garden, 2001; Dopico & Wilcox 2010; McKillop & Wilson, 2010). However, there are gains in efficiencies in credit unions which 'have room to improve' (Fried et al, 1999) and mergers do provide a real solution to struggling credit unions (Jones & Ellison, 2011).

However, Jones & Ellison (2011) assert that there is a danger in viewing mergers as the only solution for all credit unions, and where "momentum" builds up to a point where mergers become inevitable. Ralston et al (2001), Fischer (2002), Desrochers & Fischer (2003, 2005), Byrne (2006), Branch (2011), Byrne et al (2011) and Jones & Ellison (2011) point out that there is another solution in the form of collaboration between credit unions such as federations or formal networks. In terms of efficiency, such collaborative systems can reach higher overall efficiency than those of non-collaborative systems (Fisher, 2002), can reach a higher market share (Grace as cited in Jones & Ellison, 2011) and can better achieve the twin goals of efficiencies and improved member service (Ralston et al, 2001). Desrochers & Fischer (2005:2) propose that strategic networks are a "superior form of governance mechanism over mergers" as a strategy of rationalisation and consolidation.

However, formal and strategic collaboration requires a high level of capability and commitment from the individual credit union. Hence, for the stabilisation of very weak credit unions, merging with a stronger neighbouring credit union may be a more appropriate strategy. Restructuring not only has the potential to impact on efficiency but it will also impact on the nature of the credit union-member interface. It is this interface which facilitates and nurtures the relational aspect of the credit union and, in turn, is its key competitive advantage. The authors have been unable to identify any literature directly examining the impact of mergers on this relational interface in a credit union context. Some studies allude to the increasing distant and weakening bond between the credit union and the member as a result of mergers and expansion of the common bond (Jones & Ellison, 2011; Johnston, 2004; Emmons & Schmidt, 1999; Ralston, Wright, Garden, 2001) and others (Hammond-Ketilson & Brown, 2011) highlight the need for special governance structures to maintain member and community connections post merger.

Other co-operative literature on agricultural and consumer co-operatives highlights the increasing physical and emotional distance between members and the co-operative in the years following a merger (Gray & Stevenson, 2008; Ilmonen, 1986; Ward, 1982, 2000; Stryjan, 1993; Randles, 2000). However, credit union praxis or related literature does not tend to draw on the wider co-operative literature or experience. This is unfortunate, as these movements tend to be older and have much to teach the credit union movement. Hence, there is a need for literature on restructuring models which includes the experiences of other movements and the impact on the relational aspects as part of its analysis. Otherwise the research (which focuses on efficiencies only) is a little like improving the heat co-efficient of a house while allowing the foundations (relational competitive advantage) to erode.

In addition to the limited focus on the relational, the understanding of member value both in credit union literature (Hoel, 2008) and praxis (Lass, 2011) tends to be limited to offering a wider range of services and better rates. Beyond stabilisation, this limited understanding of member value is used to support increased scale, with mergers as the main strategy. It is also interesting that member value seems to be increasingly understood as monetary value to the credit union rather than intrinsic value to the member themselves (Hoel, 2008; Cutcher, 2008). Once a credit union adopts this approach, it is operating within a corporate space (Cutcher, 2008). Do credit union members actually value more services over the relational dimension? The contribution of this particular research lies in an attempt to examine the importance of the relational dimension to the member and to examine how it would feature in their preferences for future restructuring models.

Research method

The primary research for this paper involved a member survey regarding the future potential development of the movement. An *either/or* framework using two different scenarios was developed which took into consideration that the future direction of the credit union may well involve compromise. The members were asked to choose between the following two scenarios:

Scenario One

Merge credit unions into larger units, which have the potential to offer the services of a traditional bank

Even if it meant the possibility of: Many local credit unions becoming a sub-office of a larger credit union, less local control and a less personalised service

Scenario Two

Local credit unions to focus on local needs and develop tailored services to meet these local needs, and at the same time co-operate with other credit unions to develop key financial services

Even if it meant the possibility of: Credit unions not offering all the services of a traditional bank

Scenario one incorporates the idea of wide-scale mergers, where credit unions are larger and have the potential to develop a full banking service but this will involve relational costs because of increased scale and distance. In other words, the scenario asked the members would they be willing to trade relational benefits for increased services. The second scenario presents a federated option, where the credit union would remain local but would co-operate with other credit unions to develop certain services. This option might not result in the credit union developing a full banking service. In other words, the scenario is asking the members would they be willing to forego the option of a full banking service to preserve the relational dimension. As indicated earlier, the scenarios are trying to capture this comprise through the either/or framework.

There are a number of assumptions built into these scenarios. In scenario one, there is an assumption that there is a link between larger merged units, potential to develop a full banking service and some decrease in the relational aspect of the credit union. How did the authors reach these assumptions? Although the literature lacks a direct focus on the impact of mergers on the relational dimension of the credit union service, there are indications that the relationship diminishes through increased scale and distance. As mentioned earlier, some movements (in Poland and Brazil) have tried to address this limitation through collaborative structures (Branch, 2011) or through the creation of local management committees in recently merged credit unions (Cochran, 2011).

In addition, mergers are the option currently being promoted for the Irish movement. The presumed benefit for the member is increased services. The relational dimension is somewhat ignored. In order to gain a preliminary understanding of the relational impact of recent transfers of engagements (mergers) among credit unions in Ireland, we contacted a key witness from the Irish League of Credit Unions (ILCU)[2] who has played a central role in all transfers to date and supplemented this with research carried out by a postgraduate student[3] who had done some analysis on eight of the eighteen transfers. The authors of this paper narrowed their focus to aspects of the relational interface as discussed earlier in the literature, such as communication, particularly in relation to loan decision making and member representation in the acquired credit union.

It was found that the relational dimension has been negatively impacted. For example, there is now limited board representation from the acquired credit unions post transfer, varying from no representation on the board of one of the credit unions to between 1 and 2 board members in the others. Furthermore, in all of the acquired credit unions, the credit committee, which considers loan applications, no longer exists and loan decisions are now made by members of the acquiring credit union. It was noted by respondents in the sample of eight, that there was a lack of knowledge by the acquiring credit union of the members making the loan applications. While this was not in-depth research, it helped in developing scenario one.

Scenario two also carries a number of assumptions, particularly that there is a potentially positive link between the federated structure, embedded local presence and the relational dimension. Federated structures may be better able to balance scale and embedded local presence (Ward, 1982; Gray & Stevenson, 2008) and facilitate a "member-orientated relationship management focus" (Greve, 2009:65). Research currently underway by the authors on federated structures within the agricultural co-operative sector would appear to further confirm this.

Armed with two scenarios, over 1,400 active credit union members were surveyed across 7 credit unions in June, 2011[4]. As the survey was carried out in the credit union offices, it was confined to members who visit the credit union, thus limiting the findings to active members. However, this was considered legitimate given the nature of the study. Members were asked for their view on the future direction of the credit union. This section first introduces those surveyed, through a demographic and usage profile, following by the main findings of the survey.

Profile of the surveyed members: demographics and levels of activity

Table 1. Demographic profile of the surveyed members

Demographics	
Gender	
Male	436 (35%)
Female	817 (65%)
Age	
<20	54 (4%)
21-30	249 (18%)
31-40	249 (18%)
41-50	303 (22%)
51-65	380 (27%)
66-75	106 (8%)
>75	40 (3%)
Employment	
Full-time employee	438 (31%)
Unemployed	134 (10%)
Part-time employed	264 (19%)
Retired	145 (10%)
Self-employed	107 (8%)
Student	60 (4%)
Homemaker	236 (17%)
Other	25 (1%)

Table 2. Profile of member usage of the credit union

Use of the Credit Union	
Saver	
Yes, make lodgements on a regular basis	698 (51%)
Yes, make lodgements every now and then	469 (34%)
Yes, put lump sums in now and then	118 (8%)
Don't save	109 (7%)
Borrower	
Yes, currently have a loan/s	784 (56%)
Had loans in the past but not now	381 (27%)
Never had a loan with the credit union	240 (17%)
Visit the credit union	
Weekly	755 (54%)
Fortnightly	176 (13%)
Monthly	322 (23%)
Rarely/Never	133 (10%)

The gender, age and employment profile of the members surveyed is presented in Table 1. The survey included more females than males (65% versus 35%), most probably explained by the fact that females are more likely to be the financial managers in their households.

There was an even spread across the age categories, particularly in the age categories between 20 and 65. In terms of employment status, 58% of those surveyed are either in full-time or part-time or self employment. Seventeen percent were homemakers, while 10% were retired and a further 10% were unemployed.

The profile of the members' usage is examined through their level of activity in terms of savings and lending and how often they visit the credit union. This profile is presented in Table 2. The respondents were very active members with 51% making lodgements on a regular basis and a further 42% saving less regularly and only 7% stating that they don't save at all. In terms of borrowing, 56% of the responding members currently have loans with the credit union and 27% had loans in the past. Seventeen percent of those surveyed have never had a loan from the credit union. Hence, it can be said that the members are active with 90% visiting at least once a month and 56% currently having a loan and over 93% saving at some level (either regularly or an ad-hoc basis.

Future structure of the credit union: what do members want?

The surveyed members were asked how would they like to see the credit union developing in the future and were presented with the two *either/or* scenarios discussed above. Scenario one equates with a wide scale merger option and scenario two is focused on a collaborative approach. Members were asked to choose one scenario only. A little over 1,300 members answered this question. Scenario two was chosen by 88% of members, while the remaining 12% chose scenario one. The characteristics of the members, such as demographics and use of the credit union, were cross-tabulated with the scenario variable and no significant difference was found between those who chose either scenario. This would seem to indicate that the preferences of the members in terms of the future restructuring of the movement, cannot be isolated to a certain type of member, but is spread right across all ages and levels of use of the credit union.

In addition, the result shows that members clearly do not want a wider range of services at the cost of what the credit union already has to offer. There often appears to be an unquestioned assumption that member value is confined to the range of products and services and rates of interest. However, it would make co-operative and business sense for credit unions to listen to what their members really want. The authors clearly recognise that for some credit unions which are in severe difficulties, the option of collaboration will more than likely not be open to them, and that the best option in this situation would possibly be to merge with a stronger local credit union.

Importance to the member of the member relationship, trust and ability to rely on the credit union

Members were also asked to rate the importance of their relationship with the credit union on a scale of very important to not important. Ninety-five percent of members indicated that their relationship with the credit union was either very important (60%) or important (35%). Hence, a significant majority of members view their membership of the credit union as important. As indicated earlier in the literature, this unique bond between the credit union and the member is a key competitive advantage.

Two important relational aspects highlighted in the literature are trust and sense of control and security. Members were asked if they trust the credit union as a financial institution. Ninety-two percent of members either strongly agreed or agreed that they trusted the credit union, for a variety of reasons. Some cited the local nature of the credit union expressed as follows: *"Local trust and local people* (saver, female, mid-50s, full-time employed); *"I trust my local credit union"* (borrower, female, mid-40s, part-time employed); *"It's local, I know the people who run it"* (saver, male, mid-20s, full-time employed). Some members stated that they had complete trust in the credit union: *"I trust everything about the credit union"* (saver/borrower, female, mid-40s, part-time employed); *"credit union can be trusted"* (saver/borrower, female, mid-30s, full-time employed); *"It's the only place you can trust"* (borrower, male, mid-40s, full-time employed); *"They are honest and straight"* (borrower, male, mid-50s, unemployed).

Some highlighted the 'people before profit' ethos of the credit union, including the following: *"Trust that they will put my needs first"* (saver/borrower, female, mid-30s, full-time employed).

Members were also asked if they felt they could rely on their credit union. Ninety-one percent of members either strongly agreed or agreed that they could rely on their credit union when they needed it. Some of the member quotes indicate a clear memory of how the credit union has helped them in the past: *"Have always* *been there when I needed them"* (borrower, male, mid-40s, self-employed); *"Always there when I need help with money"* (savers/borrower, female, mid-20s, unemployed); *"They never let you down"* (borrower, male, mid-30s, unemployed); *"Without them I'd be lost"* (borrower/saver, female, mid-30s, homemaker); *"They help you through the hard times"* (borrower, male, mid-20s, full-time employed); *"It has always been very good to us"* (borrower/saver, female, over 75, retired).

Other quotes focus on the security of knowing that the credit union will help in the future: *"If I fall on hard times, the credit union would help out"* (borrower/saver, female, mid-40s, homemaker); *"I can depend on the credit union at all times, don't have to worry if I hit hard times"* (borrower, female, mid-50s, homemaker); *"Bit of security, can always depend on the credit union"* (borrower, female, full-time employed); *"There when I need them in case of financial difficulties"* (saver, male, mid-30s, full-time employment); *"Understanding care when difficulty happens"* (borrower, male, over 75, retired); *"My children will be looked after in the future"* (saver, female, mid-30s, homemaker); *"Know I can depend on them in times of financial need and know my money is safe"* (saver/borrower, male, mid-50s, full-time employed); *"Know that they will always be compassionate to me, people in the credit union are very human"* (saver/borrower, female, over 75); *"I feel If I was in trouble, I could put my case before the board"* (saver, female, mid-50s, part-time employed).

Other quotes highlighted the role of the credit union at times of emergency. It was found by Byrne et al (2006) that at such times, people often reconnect or start to use moneylenders. Hence, if members know they can rely on their credit union, it has very significant consequences for the individual and the wider community: *"Can rely on the credit union in the case of an emergency and where a loan is needed at short notice"* (saver, female, mid-30s, unemployed); *"Always there in an emergency"* (saver/borrower, female, mid-40s, homemaker).

This is just a sample of member quotes, many of which have a relational tone as expressed above. It is clear from the quotes presented that the credit union not only provides savings and loans products, but provides a sense of trust and security. Zwanenberg (2011) highlights that this type of security and trust is more important than price to co-operative members. To summarise, while further in-depth research is needed, there is a clear indication from this survey research that members value their relationship with the existing credit union over and above the potential improvement in products and services a larger credit union might provide.

Conclusion

The member survey indicated that members clearly value their relationship with the credit union and are not willing to trade its local nature for increased services. There is often an assumption that the key determinants of member value revolve around the delivery of a good dividend and loan interest rates, convenience, and modern financial services. Of course these factors are important, but in a credit union sense, they may not be the main drivers of member value.

There is also a broad recognition within the Irish credit union movement that there is a strong bond between the member and the credit union and that the weakness lies more in limited economies of scale and scope. However, can it be assumed that the relational dimension will be preserved or enhanced in a restructured environment? If there were a demise in the relational dimension, what would be the unintended consequences? Is one form of restructuring more benign than another in terms of its impact on the relational dimension?

There is also a need for a greater recognition by all concerned with the development of the credit union movement of the importance of the relational to the member and in turn to the business model of the credit union. While this might appear like common sense, discussion of the credit union-member relationship in these terms is limited in both the credit union academic and practitioner literature. Perhaps, the central reason for this could be that discussion in the literature tends to be confined to mergers as the most legitimate model of restructuring. Mergers and the relational dimension as discussed in this paper perhaps are not easy bedfellows.

The authors hope to have contributed somewhat to the discussion of the credit union-member relationship within a restructuring context. However, this is only a starting point and there is a need for more in-depth research on what constitutes member value in a credit union sense and the impact of structure on this member value. The authors hope to make a contribution in this regard in forthcoming papers.

Notes

1. Including the Credit Union Regulator and the so-called 'Troika' (IMF/ECB/EU)
2. A trade and representative body for the majority of Irish credit unions.
3. Brenda Corrigan, MBS in Co-operative & Social Enterprise, which is an online programme co-ordinated by the staff of the Centre for Co-operative Studies, University College Cork.
4. The researchers would like to acknowledge the co-operation of The Credit Union Alliance in the design and administration of this survey. The Credit Union Alliance are a group of 7 credit unions which have formally set up a Co-operative with the purpose of sharing back-office operations.

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Financing Energy Saving or Producing Projects: Co-operative-based and other local alternatives

David G. Ehrlich

Abstract

The urgency and costs of global warming and climate change are clear. Given the lack of movement by world governments, local authorities, and civil society institutions like co-operatives must take the lead. Credit Unions are particularly well placed in this regard. While the potential range of local financing alternatives is very great this potential will not be realized without greater awareness in the credit union sector in countries like Ireland where opportunities for renewables like wood chip and wind as well as solar are obvious. Some local financing methods have been used successfully already in various countries in the field of renewable energy, and many other local financing methods have been used in other diverse fields that could potentially be useful to financing energy efficiency and greenhouse gas (GHG) reduction projects. This paper includes financing mechanisms from both categories.

The author explores several local financial mechanisms involving co-operatives: Co-operative Lending for Traditional and Innovative Projects, Co-operatives' Advantage in Financing Economic Development, Markets to Increase Local Projects, Incentives for Energy Saving and Producing Projects, Government and Agricultural Co-operative Development Assistance, Existing Lending Institutions' Financing, Co-operative and Locally-Owned Utilities, Government Assisted Direct Loans Through Co-operatives, and Environmental Revolving Funds & Renewable Energy Bonds.

Key words

Climate Change, Credit Unions, Co-operative Finance, Renewable Energy

Introduction

Recent scientific consensus, based on data from the Intergovernmental Panel on Climate Change (IPCC), warns that global greenhouse gas (GHG) emissions must peak no later than 2015, and mean global temperature increases must not exceed 2.4 degrees celsius to avoid the worst consequences of climate change.

The International Energy Agency estimates that $10.5 trillion US will be needed to transition to more efficient energy systems by 2030; each year of delay will add $500 million to that cost (World Energy Outlook 2009, 14). Since binding international agreements were not reached in 2011, local governments may want to plan and finance renewable and GHG-emission reducing projects without national or international assistance.

Even if renewable energy sources were to quickly become much less expensive than conventional sources through conventional fuel price increases or renewable fuel price decreases, the massive scale of retrofits and infrastructure building to reduce emissions will strain local financial institutions. Employee-owned co-operatives and credit unions are well-suited to help support finance energy saving or producing (ESP) infrastructure projects, especially small-scale projects where the benefits accrue to individuals and local communities.

The decentralized nature of this building program will have to be funded with the significant involvement of both existing and new local financial institutions. The need for sharply increased investment, even with high long-term financial and environmental returns, will require new approaches and new institutional players. Many traditional and innovative finance mechanisms will be done at the local level and co-operatively by co-operative financial institutions, NGOs and nonprofit organizations, and by for-profit organizations. Even very high levels of government funding will not be enough for the investment needed to avert the most serious damage from climate change. Similarly, the laws, rules, culture, and co-operative action that exist in current bank, microfinance, and mortgage lending will not suffice. Further, this rapid investment must occur in both the developed and developing countries simultaneously. Some finance mechanisms will be effective in both contexts, but most must be tailored to the locality and may best be managed by local residents to achieve maximum effectiveness.

These innovative finance mechanisms can accelerate and help spread GHG-reducing energy projects widely and deeply into local communities, as is needed. However, analyzing the opportunities and challenges of such financing is critical to their success.

Climate change risk presents not only a problem, but also an opportunity for productive local investment that has longer and more predictable returns than many other investments available to local and other governments, local and other pension fund investors, and to individuals. Green building investments alone can provide better than break-even investments, and positive returns in energy costs alone as measured by 20 year net present values, with payback periods getting shorter as green technology advances. When emission reduction and water savings are added, along with large projected benefits in worker productivity and health, some estimates project the net present value of current investments from eight to one to eleven to one (Kat 2003, 8). These high returns compare very favorably with economic returns from alternative investments, highlighting the possibility that the trillions of dollars needed might possibly be available from profit-oriented investors. For governments, which routinely look for and find investments with very high social as well as economic returns, investments in more efficient buildings and renewable energy appear even more attractive (Rokach 2010, 42).

Co-operatives are one traditional solution to allow locally targeted investment and development, particularly for new groups of economic participants to gain competitiveness and autonomy in an area, such as farmers (Merrill and Walzer 2004, 31). An additional benefit is that co-operatives can provide political leverage to new, small, poorly organized, or local interests. This political leverage may also help to increase the availability or equity of government funding for local communities.

In developing countries, the economics of renewable energy differ somewhat for several reasons. First, renewable energy is often the only energy available, and so does not face as severe competitive challenges as long-existing fossil fuel-based energy does in developed countries. Solar water heating, small solar panels, and small Hydro, wind, biomass, and other forms of power are often much more feasible for entirely practical reasons: there are few if any conventional alternatives, and when they exist they can be expensive and unpredictable. Second, while price is important, the value of small amounts of electricity is clearly higher to recipients than the marginal value to customers in energy intensive countries. Third, many conventional grid customers of electricity in developing countries have intermittent power that make dependable off-grid renewable energy even more attractive. Given the lack of reasonably-priced traditional financing sources in much of the developing world, co-operatives – which in many areas already finance diverse projects beyond agriculture – are even more appropriate for funding renewable energy than in the industrialized countries.

Co-operative lending for traditional and innovative projects

Traditional mortgage loans based on individual or family income and debt differ sharply from energy saving and producing (ESP) project-based loans.

Mortgages rely primarily on *individual* income, *individual* debt criteria, and *individual* real estate values. ESP project loans could use similar individual risk-estimating measures, or they could use *project-based* risk-measures that may be legally assigned as separately-owned, and so may continue to save energy or provide energy regardless of the property owner or the value of the property, and regardless of whether the property was owned by an individual.[1] In other words, a property with an energy-producing project attached would continue to produce energy regardless of whether the property was in foreclosure, between owners, or under renovation and unoccupied. With proper legal and ownership arrangements, and with long-term contracts with utilities or other energy buyers, ESP project revenues may be far less risky than conventional mortgages and other relatively low-risk investments, and so attractive to a wide range of investors from fixed-income retirees to state or private pension funds.

Lending for energy-saving or energy-producing projects is often, given their fairly long life-spans, very similar to mortgage lending. Like mortgages, communities have a vested interest in helping to build local infrastructure, including through locally-financed lending. While mortgages have recently been de-localized and most converted to financial commodities that can be bought and sold worldwide (even in synthetic futures markets), locally-funded and long-term GHG-reducing loans may have a clear competitive advantage for local banks and for other local lenders – perhaps for many years – before commercial financial institutions develop the ability to compete.

Further, the financial analysis of small scale renewable energy projects is nearly as simple to calculate as a mortgage or refinance calculation, and can be done online (Bahaj et. al 2006, 160).[2] Payback periods for current solar photovoltaic systems vary widely, but may range between 10 and 15 years at $4 per watt with government or utility incentives, well within the range of other long-term investments at a 5 percent discount rate.[3] A United Kingdom study of wind microturbine feasibility found payback periods in good wind areas ranged from 13 to 38 years depending on the subsidy or grant level (Peacock et al. 2008, 1331).

Traditional financing norms for local projects often evolve slowly, both for local lenders and large financing institutions such as banks; project financiers and investors favor projects with high revenue streams to improve the likelihood that the loan will be repaid. Many local energy projects do have such dependable revenue streams – some much more dependable than mortgages, where risks are based largely on the borrower's income and perceived ability and willingness to pay. The main reason that banks and their co-operative and credit union competitors don't offer innovative renewable energy financing products is unfamiliarity with alternative energy and its financial characteristics. A part of the hesitation may be attributed to factors such as unknown local utility buyback arrangements, or difficult to estimate wind or sunlight conditions. However, sunlight and the energy that it will produce is highly predictable, and average wind speed, while less predictable than sunlight, is still much more predictable than an individual borrower's future income or debt levels.

Well-managed ESP loans may actually be *more* stable and have *lower* default rates than conventional mortgages, as well as yielding higher interest rates than bank and co-operative mortgage lending. While national lenders and the purchasers of mortgage loan products typically rely on loan portfolio's aggregate indicators of default risk such as credit scores, income, debt/income ratios, and other factors, these may be less reliable indicators of default risk than known geographic factors, technology, and ESP characteristics, creating several disadvantages for conventional loans when compared to ESPs. Further, traditional financial organizations such as banks have little experience with such loans, little in-house expertise, and no institutional mission in their *mortgage lending* or *commercial lending* departments to make such loans.

Co-operatives – operated for the benefit of their own members – may be more likely to be both responsive to members and may, in seeking new customers, be willing to make such loans. Co-operatives and credit unions tend to see their mission differently, in many ways, than conventional businesses. For example, a co-operative may choose a different mission, may accept lower or less assured profit margins, and if managed well, may distribute fewer profits to upper management or preferred shareholder owners than conventionally owned businesses.[4]

Co-operatives' advantage in financing economic development

Like local mortgage lenders, local lenders have access to more information about energy-saving and producing (ESP) projects than national lenders. With the ability to develop extensive information sources about borrowers, builders, suppliers, project appraisers, local utilities, and locations, local lenders may have a competitive advantage over larger national lenders. In addition, local governments can tailor selective incentives for ESP projects in a way that national firms cannot. Unlike national lenders, or local lenders marketing commoditized loan products, local lenders know much more about both projects and borrowers, making local lending risk levels easier to monitor than for non-local firms.

Over time, profitable ESP project lending will draw more competition, perhaps limiting the discretion, risk levels, and types of projects that local lenders can undertake. However, like some co-operatives, credit unions, and nonprofit businesses, local lenders may compete on factors other than price. For borrowers (community consumers), local co-operatives may benefit from greater trust, a greater ability to monitor, and more transparent contracts. Co-operative financial organizations can also compete through enhanced service, consulting, and prices that are equal to or less than conventional commercial lenders' rates. Some local co-operative finance organizations may have to evolve to become more specialized lenders for environmental investments, as has occurred in mortgage markets, which are less diverse than energy-related projects. Some financing of wind, solar, and geothermal will certainly come from national or international financiers, particularly for the more predictable products that become standard products, even commoditized financial products, as mortgages have become.

Co-operatives may be in a better position to – and more motivated to – spread the cost of local development in a more sustainable way less tied to macro economic trends, and more diversified across energy and environmentally sustainable projects. Even if the costs of renewable energy remain higher than for conventional energy sources, individuals may choose to pay the difference. A number of studies have found that electricity consumers are willing to pay more for renewable energy, often up to half the cost of government subsidies to encourage such conversions (Bollino 2009, 95). Local diversification in energy production is more economically and developmentally sustainable when costs are spread between government and consumers, when diverse new technologies are supported, and when financiers, suppliers, and consumers are local. Particularly when governments seek to increase renewable energy supply, co-operative financing can help local consumers and utilities to achieve broader societal goals while also achieving local economic development goals.

This paper does not discuss the economic development aspects of renewable energy or building efficiency, which are clear. However, from an investment point of view, a diversified local economy that includes investments in local infrastructure and local employees is likely to increase stability during macro-economic fluctuations compared to a local economy and job base that are highly dependent on more variable international or regional trade, or where local industry is narrowly based. Further, large and stable investment in local energy efficiency and renewable energy projects will increase local economic competitiveness for businesses that export goods and services domestically, regionally, and internationally by lowering the relative utility costs of doing business.

The high potential economic returns from investments in renewable energy and energy efficiency change the nature of government activity from trying to induce behavior that goes against individual self-interest towards helping individuals and investors and institutions to act in their own self interest as well as in the interest of the community. This is a much easier task and one which presents many alternative actions, including educating potential investors, facilitating potential investment, and providing an environment of investment stability; all are things that local co-operatives can help to do.

Markets to increase local projects

To help structure local markets to embed externalities into prices, even without international agreements, there is much that governments can do. Local, state, and national governments use four generic policy tools at the local level: traditional *mandates* such as zoning codes, appliance efficiency standards, local utility buyback requirements (net metering plus), creating and improving *markets, incentives and subsidies*, and encouraging *voluntary* actions with no direct government involvement. Most policies involve incentives and are entered into voluntarily; even environmental mandates allow customers voluntary options, such as to switch or diversify into cleaner technologies.

Environmental markets are facing a range of additional serious challenges that localities have little, if any control over. Prices are unpredictable in carbon trading schemes, as has been shown by recent decreases in carbon credit prices in the European Union Emission Trading System. To help value green improvements in the local marketplace, cities might require standardized green reporting on real estate listing services, helping to improve the market for green improvements, or even require certain upgrades at the time of sale. These and local policies such as the uniform green labeling of local buildings, products, and services, each help to reduce information asymmetries between buyers and sellers of high and low-emission products and services. Local approaches to financing green building and ESPs could provide a cushion to the community from broader economic cycles.

Wind, followed by solar, will reach grid parity over the next several years in many regions. Solar prices per watt will likely continue to improve dramatically as nanotechnology is integrated into solar cells (Tierney 2008; Kurzweil 2005, 249-250).[5] National governments are and will help to finance and upgrade electricity transmission to maximize both large and small-scale renewable energy. Wind and solar energy, while only a few percent of overall electricity in the US now, could potentially provide up to a fifth of US electricity over the next decades; some projections are much higher. In some US states, 10 percent of electricity is wind powered. Government can encourage technology development and cost reduction by investment in these through tax subsidies and many other smaller steps. Portugal, for example, already produces 45 percent of its electricity from renewable energy (Rosenthal 2010).

If the widely shared goal of increasing the price of carbon is achieved, locally financed energy or GHG-reduction projects will assist even more in local economic development. Local governments, social entrepreneurs, and employer-owned businesses such as co-operatives and credit unions can each influence local resilience to the shock of increased conventional fuel prices. Further, ESP projects can reduce the local impact of future higher energy prices, and even improve local economic development from energy use reductions and increased sale of renewable energy back to utilities or the sale of GHG credits to regional or global carbon markets.

Although unevenly adopted, local governments can encourage voluntary or required ISO 9001 and 14001 organizational environmental management systems and other voluntary standards, which can help both self-monitored and externally monitored organizations to improve, and can help finance local environmental projects and emission reductions within local companies. Complete voluntary actions may include detailed environmental audits and the disclosure of these audits publicly both for reasons of marketing and self-improvement.

Co-operatives may be much more effective at helping to reduce emissions as offset aggregators than private firms; governments might consider significant distributions of credits to these organizations as well as to public entities such as state and local governments and public facilities. Chicago's Center for Neighborhood Technology, for example, is participating in the voluntary (now closed) Chicago Climate Exchange (CCX) by acting as an offset aggregator for a variety of urban emission reduction programs; should CCX credits have risen in price, the nonprofit would receive revenues from the sale of credits. Co-operatives could feasibly offer loans such as those by utilities and private firms – usually small – that pay for renewable energy projects' installation and financing, and also act as the selling agent for any electricity or credits that might be produced by the project. Co-operatives, more trusted in the community, would likely be preferred by consumers in a competitive marketplace involving long-term projects on or near their homes.

Incentives for energy saving and producing projects

Incentives and subsidies, including taxes and fees, are other commonly used approaches that could be more broadly applied to environmental investments. In addition to ordinary tax penalties and subsidies, local government can fund incentives with cross-subsidies by increasing taxes or fees on the most damaging pollutants to pay for incentives and direct subsidies for the least polluting products, services, and buildings. These pay-as-you-go solutions are transparent, revenue-neutral, involve no across-the-board sales or income tax increases, and achieve societally beneficial community development goals that are likely to enjoy significant electoral support. Local governments could also give particular incentives to ESP funders to finance projects within the community, and that would encourage the building of local ESP related infrastructure, while keeping funds and loans in the community. Such incentives would give clear benefits to co-operative banks to make or increase ESP lending.

For example, cities such as Gainesville, Florida and other governments are using feed-in tariffs that have proven to be successful in Europe to subsidize solar power in the US. The City of Chicago gives developers who achieve LEED building standards an expedited permitting process; since construction delays can be very expensive, developers have a financial incentive to achieve LEED ratings. Local governments have a variety of low-cost incentives available that could be enough to encourage co-operative, credit union, or nonprofit lending, if not traditional bank lending.

Government and agricultural co-operative development assistance

In some countries, such as China and India, existing credit co-operatives designed primarily for agricultural loans could expand their portfolios to include environmental projects – some of which may also be agricultural in nature and well within their existing mandate.

For co-operative-owned businesses, there are already special programs by the US Department of Agriculture (USDA) that may include grants for projects that support the use of renewable fuels. Other countries' departments of agriculture could give similar incentives to increase the GHG-credit funding projects. Given the high levels of current agricultural subsidies, particularly in the US and EU, ESP projects may not require additional government spending for crops already facing subsidy reduction schedules. Some farm programs involve energy projects involving farmer or producer-owned entities. However, even a utility might access these programs if, for example, a utility formed an alliance with agricultural producers to provide the necessary feedstock to produce energy.

Existing lending institutions' financing

Long-term loans for buildings and infrastructure are common in industrialized countries. In many ways, efficiency and renewable energy fits existing models of long-term infrastructure lending. Conventional mortgages are also offered at low interest rates because they are seen as relatively low-risk compared to other investments. As with mortgages, the largest funding source for investment in renewable energy and building efficiency will come from private investment.

Although long term loans for GHG-reducing projects are conceptually similar to mortgages, they are not typically treated as such by banks and other lenders. Such projects represent concrete investments in building projects that in most cases cannot be removed and are fully as permanent fixtures of property as are furnaces, heating systems, roofing, insulation, and other permanent or built-in installations.

There are three basic types of loans that lending institutions, such as co-operatives, might pursue: new mortgages that include environmental or efficiency aspects, second or third mortgages that fund environmental or efficiency improvements to property that already is financed by a loan or mortgage, and finally, loans for new freestanding renewable energy or GHG emission-reducing projects.

New mortgages should have a higher loan limit when they include environmental or efficiency building components to existing property, or when they finance completely new green buildings or homes. This higher loan limit should be explicitly written into banking regulations and the limit would reasonably be increased to the extent that monthly finances are improved by environmental investments. For example, projected lower energy bills should be subtracted from the estimated total financial commitments of the borrower, such as mortgage payments, existing student or auto loan payments, or other financial commitments that bankers take into account when they assess a borrower's repayment capacity. This is no different than current mortgage qualification calculations. In order to introduce new procedures, more systematic and reliable methods to measure and estimate building energy performance are needed.

Ideally these would be standardized and easily understood by consumers: state and local governments, nonprofits, or for-profit firms could set up such systems to measure or estimate energy use accurately, and require their use. While measurements such as these are not always straightforward, and involve some cost to the buyers or sellers of property, the measures are not significantly different than other disclosures of marketable property such as square footage, bedrooms and bathrooms, heating and cooling equipment information, and the inspections that both sellers and buyers often do to learn more about a property – particularly about issues that could prove to be expensive and which might be negotiable in real estate contracts, such as aging furnaces, roofing, or the use of asbestos insulation.

Green second mortgages could help finance efficiency or home renewable energy projects that could not be financed by conventional lenders. Green mortgages should fully recognize that they are secured real estate-type investments, not unsecured consumer loans. While existing mortgages that are packaged as commodities for resale cannot be revised after they are sold, additional mortgages such as second mortgages could be offered by banks and other lending institutions more flexibly. Local banks and lenders would be particularly interested in such loans because in most cases they would reduce costs for the borrower – savings which could be applied toward repayment and which would strengthen the borrower's financial condition.

Because such loans offer a measurable financial improvement to the property, they are in many ways safer for lenders to undertake than conventional second mortgages, which add nothing to the value of the property but nonetheless are secured by the property as junior mortgages. While no lender wants to repossess a house or building, the second mortgages would likely be treated as other second mortgages in the case of foreclosure. If anything, efficiency or renewable energy loans should be recognized in foreclosure for their contribution to increasing the value of the property rather than being considered as second mortgages usually are: as loans that are secured by the property only after senior mortgages.

New project loans are perhaps the easiest loan to design, begin as a project, can be evaluated independently, and do not suffer the same kinds of existing financial challenges that adding a loan to an existing mortgage does.

Co-operative and locally-owned utilities

The role of government as an alternative to pure market allocation of electricity is strong in most countries. Government acts as an important player in not only allocating electricity fairly – or at least reflecting the existing political power structure of communities – but perhaps more importantly in framing the environment by which private investors, individuals, organizations, co-operatives, and communities can together plan energy projects.

In the US, many rural utility co-operatives have existed for 70 years, and have even performed well in urban communities that have grown into rural areas. And in India, the Electricity Act of 2003 gives considerable political control of the local generation of electricity to panchayats – the rough equivalent of small town US city councils (Chaurey et. al. 2003, 352). In the US, even the smallest level of government is often involved in electricity issues ranging from having input into the regulation of utilities to, in some cases, operating small power plants independently. For example, cities such as Lamar; Colorado; Waverly; Iowa; Moorhead; Minnesota; and Hull; Massachusetts built and operate their own wind turbines (Kubert et.al. 2004, 2). At the federal level in the US, the federal energy regulatory commission will likely lose some of its allocation power as decentralized and renewable energy is approved by local and state governments (Rokach 2010, 46). Co-operatives are well-placed to enter renewable electricity markets, including as partners with local governments.

Several infrastructure financing trends have been apparent in the United States over the last two decades, leading to renewed increased interest in innovative ways to fund infrastructure. These included a decline in the rate of public infrastructure investment, including a decrease in federal spending on infrastructure, budget cutbacks at the state and federal levels, high estimates of infrastructure replacement needs, competition between infrastructure projects for funding, and difficulty obtaining financing by some cities and private builders of infrastructure through existing capital markets. Larger co-operatives could expand their typical operations to larger scale ESP projects and act as a bridge between public and private goals, acting in the employee owners' interests through providing capital – perhaps with government loan guarantees, as have been used by US federal and state governments – to encourage private and pension fund financing of private roads.

Government assisted direct loans through co-operatives

Several US transportation infrastructure projects help illustrate how governments can leverage their spending with low risks and likely returns on public investments. While governments can make direct loans for larger projects, for small-scale loans governments might more appropriately loan to financial institutions such as co-operatives to administer loans on the government's behalf. Governments' goals are to reduce government spending on infrastructure by leveraging private investment that would otherwise not take place. In the US, co-operatives have sometimes been the vehicle for government priority projects that private sector banks were not willing to undertake.

One large example of a privately built project that was greatly assisted by the federal government was a direct federal loan to the Alameda Corridor Project – A $400 million federal loan to help finance the $2 billion, 20-mile intermodal rail line from the Ports of Long Beach and Los Angeles to a downtown rail switchyard. In 1997, the federal government appropriated $59 million to insure the federal loan of $400 million. This $400 million, plus an additional $47 million in other federal grants, over $400 in railroad contributions, and over $400 million in state and local government funds, was used to encourage bond investors to buy over $700 million in revenue bonds. Repayment of both the federal loan and revenue bonds is based on fees to be paid by users – railroads, steamship lines, and ports. Payback of the federal loan is subordinate to repayment of the revenue bond, and is flexible to some extent over a period 30 years from project completion. The interest rate on the federal loan is at Treasury Bond interest rates which are likely to be lower than the interest rate the Project will pay for their revenue bonds. Including the federal loan, the federal share of the project is less than 20 percent of the total over $2 billion cost. Not including the federal loan and presuming its full repayment, the federal share will total about $107 million, or about 5 percent of total costs. While Project officials say construction would probably have gone ahead without the federal loan, financing would have been much more difficult and costly.

The worst case scenario is that the federal government could lose the entire $400 million loaned to the Project: $341 million from Treasury borrowing plus the $59 million appropriation. The best case could be that the federal government will receive the full $400 million loan amount paid back, plus $1.35 billion in interest, or over $1.7 billion in total repayments to the federal government by 2031.

Environmental revolving funds & renewable energy bonds

Co-operatives could play a number of specialized roles in government bonds, from being the lender or borrower of government-guaranteed loans. To leverage funds in an environmental revolving fund (ERF) to increase available capital, a state or locality might issue bonds against the base value of the fund and then loan the proceeds, doubling or tripling the value of the existing capital.[6] Local government bonds issued for dedicated environmental or renewable energy purposes could be structured either as revenue bonds to be paid off using electricity customer revenues, or could be structured as general obligation bonds. In either case local governments could make a very strong case for the public investment value of these bonds. They are also attractive because they help to spread the cost of large projects whose benefits extend across several generations to a wide range of taxpayers both geographically and generationally.

The federal US government could also issue environmental and renewable energy bonds, and these bonds would likely be rated highly by bond rating agencies. Assuming that federal bonds were used for projects that were clearly environmentally worthwhile or for promising renewable energy projects, such bonds would likely attract wide support not only from investors for their safety and return, but from environmentalists.

Conclusion

These are just a few of the government policy tools that are already helping to finance investments in low-polluting projects, buildings, and technologies. But governments do not have the resources to fund even a fraction of the green infrastructure that will be needed. The private sector must be drawn into financing a large share of these projects. Still, many projects will not be funded either by the government or the private sector, for a variety of reasons. At least some of these unfunded projects – trillions of dollars worth – may be candidates for projects by co-operatives, credit unions, and perhaps new, employee-owned and specialized environmental financial institutions with different missions, owners' priorities, and more community-oriented goals.

Together these actions could help communities to reduce GHG emissions, reduce other local pollution, create jobs, help businesses increase exports, meet international environmental standards, create local income, and help more efficient local businesses to compete both domestically and internationally through easily achievable efficiency savings. Most importantly, local governments can use various types of co-operatives to help create or improve markets through transparent green product and building performance information, as offset providers, by cross-subsidized incentives, through more extensive feed-in tariffs, and by leveraging the investments of taxpayers through bonds, revolving funds, direct loans, loan guarantees, and funding the next generation of renewable energy production through investments from all sectors.

Notes

1. Solar panels, small rooftop wind turbines, or even geothermal heaters might not be owned by the building owner, but owned (and financed) by a third party such as by a utility, bank, co-operative, business, or nonprofit.
2. In the US, see solar calculators such as: http://www.solar-estimate.org/index.php
3. Installation costs increase these prices. Cost estimates vary widely and are dropping rapidly. See web sites such as : http://www.solarbuzz.com/Consumer/Payback.htm
4. A Boston environmental land-use lawyer tried to buy home insurance for a passive home with no furnace, similar to those in Europe, but was turned down by several insurers due to the fear that water pipes would freeze. Jr, Tom Zeller. 2010. In Passive-House Standards, a Brighter Shade of Green. *The New York Times*, September 25, sec. Business / Energy & Environment.
5. From a price of $2.75 per watt in 1998, solar cell efficiency has risen sharply in 12 years as prices have fallen (National Academies 1998, 166).
6. For more information on clean water revolving loan funds in the US, see: "Clean Water: How States Allocate Revolving Loan Funds and Measure Their Benefits." GAO-06-579, June 5, 2006. See also "Clean Water Act: Nine States' Experience With the Clean Water State Revolving Fund." T-RCED-97-152, April 23, 1997. Both reports are published by the United States Government Accountability Office, Washington, D.C.

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ICA EXPO is a professional trade fair intended to promote co-operative products and services. Its main focus is to provide co-operatives with the opportunity to showcase their latest innovations and to create a business platform between producers and the international consumer market.

Co-operative networks as a source of organizational innovation

Sonja Novkovic and Wendy Holm

Abstract

The paper examines co-operative networks as a foundation of organizational innovation. Theory suggests that co-operative network formation is a basis of innovation, as well as a source of competitive advantage. We argue co-operatives that adhere to the principle of co-operation among co-operatives are more likely to create innovative solutions for their members, but we also make a case that when the vision of the drivers of innovation is clear and member-focused, complex networks are more likely to be created. The most unique characteristic of complex networks is their dynamic adaptability: driven by shared buy-in, linkages are created that result in unplanned outcomes which resonate across the network. The theory and evidence of co-operative network formation is examined, and conditions for the creation of complex co-operative networks are explored. We support the proposition that co-operatives are the drivers of innovative solutions with two case studies of multi-stakeholder co-operative networks that provide public goods.

> *"For co-operatives, networking is not one opportunity among many others, but rather it is the normal way of operating as a result of their solidaristic dimension."*
>
> Menzani & V. Zamagni 2010

Introduction

Innovation can be related to products, processes, or organizations (Boer and During, 2001). Although all three types are interrelated, organizational ability to learn and adapt to a changing environment is at the heart of discussions about viable systems in general, and organizations in particular. Organizational innovation refers to the creation or adoption of an idea or behaviour new to the organization (Lam 2004). One strand of literature deals with *organizational innovation as a structural issue*, and explores particular organizational structures that are more likely to result in product or process innovations. The other two strands of literature look at *organizational cognitive processes and learning capacity* (i.e. how organizations develop new ideas for problem solving); and *organizational change, adaptation, and the process of creation of new organizational forms* (Lam 2004). We focus on the latter two understandings of organizational innovation to make the point, based on the two case studies of innovative co-operative organizations, that co-operative networks are complex organizational forms that emerge as a response to the external environment, but also influence and shape it. Moreover, co-ops lead the process of complex (multi-organizational) network formation, since they are driven by their problem-solving nature and a common purpose of the members. In particular, as our cases illustrate, they are the leaders in creating new organizational forms when motivated by the provision of public goods, placing the co-operative model at the forefront of social innovation and entrepreneurship.

The paper is organized as follows. Social network theory and its application to co-operatives is described in the next section, followed by a discussion about co-operative network creation and supporting institutions. We outline the typology of co-operative networks, and describe complex, multi-stakeholder networks in the context of complex adaptive systems as the source of innovative ideas and organizational forms. Making the case that co-operative networks are the architects of organizational innovations, we end with two case studies of innovative co-operatives, and offer some concluding remarks.

Social network theory and co-operatives

Markets, hierarchies and networks

Adaptation to a changing environment is the central challenge for organizations (Williamson 1991). Adaptive capacity can be located in the market, where price signals are understood to serve the (anonymous) coordination purpose, or in the internal organization, where coordination among actors is deliberate, and often hierarchical[1]. Williamson considers networks to belong to a third, 'hybrid'[2] form of organization, and finds them particularly effective under conditions where firm reputation matters. While Williamson acknowledges that networks may be an effective mechanism for cost reduction under some circumstances, he argues they are less effective under increased uncertainty because transaction costs increase as consensus decision-making can be time consuming. This is also true when confidentiality is an issue, especially in presence of strategic technological innovation. But Williamson's concern with what he perceives as a potential of networks to create higher transaction costs warrants further scrutiny.

The transactions costs approach is based on the premise that networking is driven by the individual agent's quest of cost reduction. Jones, Hesterly & Borgatti 1997 augment the transactions costs analysis by incorporating social network[3] theory to describe 'how social mechanisms influence the costs of transacting exchanges' (p 913). They identify conditions for network governance and explore why networks, rather than markets or hierarchies, are employed, and conclude that the presence of social mechanisms enables network creation and adaptation in the rapidly changing market environment.

Following Jones et al, Bijman 2005 makes a case for co-operative firms as hybrid governance structures that depend upon three organizational mechanisms – norms, price and authority – in their decision making. The price mechanism is used by agricultural co-operatives in transactions between members and the co-operative firm; authority (hierarchy) is applied as the control mechanism in the relationship between member-owners (represented by the board of directors) and management; and social norms (or network mechanism) are used in inter- member relations[4].

The balance between the use of different mechanisms – market, hierarchy, and networking – shifts with the changing environment, resulting in organizational change that can strengthen or weaken the (social) character of co-operative organizations[5].

Co-operative networks and complexity

Co-operation among co-operatives[6] is a consideration for all co-operative organizations. While worker co-operative networks of the industrial cluster type are relatively rare (Halary 2006, Smith 2001, 2004a,b), worker co-operatives as well as other co-operative types form federations to perform a number of functions. Co-ops are often connected in sector networks – e.g. federations of worker co-ops, agricultural co-ops, consumer and financial co-ops – or in regional support and co-op development networks – e.g. leagues or councils.

Federations are a hybrid form of governance of economic activity that can be stronger than alliances and joint ventures, and range from loosely linked confederations to well integrated socio-economic systems (Johnstad 1997; Byrnes, Holm & Matthews 2011). Federations can secure scale economies and ensure cost reduction for their members, but more importantly they provide essential types of services to their member-cooperatives, including research and development support, social benefits, and political voice among others (see Smith 2001). The purpose and advantage of networking among Italian co-operatives, for example, has been to achieve economies of scale and scope, marketing by common branding, and adaptability to a changing environment (Menzani and Zamagni 2010).

It is often stressed that the co-operative form of organization is a 'natural' fit for network governance because of its social component (associational character), its democratic decision making, and the co-operative identity[7] (Halary 2006, Simmons and Birchall 2008, for example). Often, however, low co-operative density stands in a way of applying the principle of co-operation among co-operatives to their advantage — there are simply not enough co-operatives in the particular industry or region to form co-operative chains. When a larger group of co-operatives are present in a region, a number of positive network externalities emerge. These include access to particular management skills, social networking and learning, social capital, access to finance, supply chain linkages, and others (Halary 2006, Smith 2004). There is also the ability to share knowledge with like-minded organizations and compete against (potentially more capitalized) investor-owned firms (Novkovic 2007). In cases where there are supporting institutions/networks, such as federations or leagues, the advantages of network externalities are particularly accessible. For Italian co-operatives, and, one may argue, co-operatives in general, networks are a way of doing business (Menzani & Zamagni 2010); therefore co-operative networking is 'thicker' and far more strategic (with alliances formed through the leagues/federations and with diverse co-operatives) than in capitalist businesses.

While the transactions costs literature concentrates on the formation of networks as a cost-reducing mechanism for an individual organization, network externalities and complementarities among co-operatives may produce benefits beyond individual organizations as well (Smith 2004a, p 186), with the co-operative model serving as a mechanism for social coordination.

We identify five types of co-operative networks:

1. Co-operatives themselves can be viewed as networks of independent producers/members (e.g. agriculture; crafts; artists)
2. Independent co-operative firms form inter-organizational networks for particular purpose (egg. second-tier co-operatives; co-operative federations)
3. Co-operatives form supply chain networks with other co-operatives (example fair trade chains)
4. Co-ops take membership in professional (or co-op development) networks/associations to provide them with particular member services (e.g. sectoral federations or regional associations/councils)
5. Co-ops form networks with other co-ops, individuals, businesses or government agencies for a particular purpose, often outside of their core business. We call these *complex networks* to indicate their multi-stakeholder character. Often, these complex networks are formed to provide a public good – e.g. education, R&D, healthcare or social care.

The focus of our paper is on the fifth form – complex networks- since they produce unexpected linkages between various agents and are likely to result in innovative organizational forms. They also lend themselves to the complex adaptive systems approach to organizations (see Soots et al 2007, for example).

Co-operative networks share common characteristics with complex organizations (Cillier, 2005). They are both *based on relationships and interactions* among the members and they are *open systems* that interact with other organizations and with their environment, and therefore shape and are shaped by them. Co-operative networks abide by the principle of open membership, leaving the boundaries of the organization open to external influence and re-examination of its purpose and functioning. *Unpredictable (emergent) behaviours and outcomes are possible* in co-operative networks since co-operatives are run democratically. *Nonlinearity* of interactions manifested by the 'whole being greater than the sum of its parts' is present in co-operative networks, and there is also *context and path dependency*: local and/or internal solutions and social innovations dominate in successful co-operatives. Finally, both systems are *decentralized*; they *self-organize* and respond to a perceived need[8].

Networks and innovation

As argued above, creation of independent umbrella networks may provide needed institutional support to not only assist co-operative development, survival and growth of the sector, but also to provide a platform for innovation in finance, marketing and other areas of co-operative economic and social activity. Smith's proposal rests on evidence of network externalities in both Mondragon Co-operative Corporation (MCC) and La Lega co-operative networks. Among other areas [9], the author discusses joint ventures and strategic alliances of the co-operative network (with other types of businesses and with government) as one of the innovative functions for the umbrella organizations. This same function is viewed by Soots, Perry & Cowan (2007) in the framework of complex adaptive networks applied to the case of the Nova Scotia Co-operative Council (NSCC). Soots et al describe the activities of the NSCC as the hub which is building and facilitating linkages among various support groups in the network.

Industrial networks are sources of innovation and an advantage under global competition. Halary (2006) identifies worker co-operative networks exhibiting network externalities in Italy, Spain (Smith 2004b) and France. Because the co-op business model contains the elements of social interactions required for effective inter-organizational linkages – from trust and reciprocity to durable relationships and social cohesion – Halary argues that co-operative business forms have a strong advantage over their capitalist cousins in network creation and, thereby, social coordination.

Looking at the probability of adaptation of new technology through a network or inter-related firms, Taylor & Levitt [10](2005) find some common threads that make these adaptations more likely. Beneficial qualities of adaptive networks are relational stability embodied in long-term relationships among firms (that are not based on choosing the lowest price offer); mutual interest (rather than their own self-interest); flexible boundaries and roles, instead of rigid division of tasks; and presence of an agent for change at the network level.

Taylor & Levitt's findings apply to co-operative networks (Smith 2004a,b) in general, since their relationships are long term; their purpose is common gain (solidarity is a shared value, often explicit in co-op relations); their boundaries are flexible and likely to be present where solidarity is entrenched among co-ops in a network; and agents for change are often embodied in co-op leagues, federations or councils (Smith 2004a). On the last point, private sector firms cannot easily access strategic collaboration, either because as competitors they don't readily perceive the benefits or, when they do, the process of pursuing those benefits attracts the interests of combines regulators. Co-operatives have an advantage, as is natural for them to discuss how they can work together to reduce costs, access new technology or increase market share, (Menzani & Zamagni 2010).

But what is it about networking that prompts innovative organizational forms? And what drives co-operatives to seek partnerships with others, including non-co-operative organizations? While transaction costs may be one type of incentive, we look at co-operatives as "collective problem solvers" (Borzaga 2011), rather than profit maximizers. While financial viability is necessary, it is not co-operatives' raison d'être.

Co-ops and innovative network creation

Complex co-operative networks, innovation and entrepreneurship

Besides other factors, the building of networks requires 'champions' who lead the effort of network building. The elements of success of the Nova Scotia's co-op development system featured in Soots et al 2007 are the combination of institutional support, social entrepreneurship and vision, and strategic partnerships. But how are the partnerships formed, and what is the driving force behind them? We conjecture that common purpose drives co-operative entrepreneurs to seek partnerships to find solutions to a particular problem. We also infer that complex (multi-stakeholder) co-operative networks are the breeding ground for innovative organizational forms, judged by the prerequisites for successful adaptive organizations (Lam 2004, Bijman 2005, Halary 2006, Taylor&Levitt 2005).

Complex co-operative networks can then be examined in the framework of complex adaptive systems. Social and business network theories increasingly draw on the theory of complex biological systems and self-organizing systems, indicating the need for adaptive, learning organizations which are decentralized, rather than hierarchical.

CAS management and the co-operative advantage

Some success stories of companies that created an adaptive self-regulated business environment have emerged, such as Brazil's Semco, or Suma in the UK, among others. These democratic organizations thrive on the understanding that people in organizations are the most effective problem-solvers in dynamic environments. To be effective, they require knowledge and freedom to act[11], rather than hierarchical structures that are slow to respond to frequent changes.

These successes underline the basic premise of complex adaptive systems (CAS) that the 'whole is larger than the sum of its parts' (McMillan 2005). As noted previously, CAS share some common characteristics: they require diversity to be able to create new ideas; they are a system of interconnected independent agents; they possess adaptive capacity and ability to learn; decision-making is decentralized; relations between individuals are more important than the individuals themselves (e.g. sports teams); they are non-linear, and path dependent (Zimmerman, Lindberg & Plsek 1998). It is therefore important, in managing CAS, to provide an enabling environment in the form of communications learning and clear goals, rather than top down decisions (Espinosa, Harnden &Walker 2007).

The innovative governance practices arising from complex adaptive networks are credited with the success of California's water planning and management process (CALFED), for example. The group introduced collaborative heuristics amongst multi-stakeholders, including a nonlinear planning method, to produce a self-organizing systems behaviour and adaptation for the real-time environmental use of water while protecting a reliable supply for agriculture and urban interests (Booher and Innes, 2010).

We conjecture that co-operatives have the potential to effectively apply CAS management because of their democratic and participatory nature. This is particularly so when communication and understanding of the purpose of the co-operative is shared by the members. Complex systems require independence of individual agents and the formation of new organizational arrangements at a different level to manage the complex interactions (Espinosa et.al 2007). The requisite participatory, democratic management of such complex systems is the modus operandi of co-operative organizations.

Looking at complex network creation from the business purpose perspective, a clear focused vision of the *purpose* of the enterprise is key to driving the agenda. The initial drivers may be individuals, but in the co-operative network context, the sooner they become groups of people and institutions, the more powerful the results. (See McMillan 2005 for a case of the Open University in the UK). Why is the purpose a critical component? Having a clear vision of a purpose driven by member-needs allows the actors to define their 'fit' differently and pursue the goal more effectively[12]. The basis of co-operation (with government, private business, other co-ops) becomes a *shared values-based platform*, rather than one guided by profit (see Bennet & Bennet n/d, for example). Co-ops are leaders in complex network creation i.e. social coordination, particularly in the case of public goods (the 'commons'), because of their comparative advantage as values-based businesses.

Our examples below draw on two such cases – one from the education sector and one from the healthcare field. The healthcare case is a complex network centered on a 'league' (NS Co-op Council) in its initial stages; the education example is driven by a co-op, but one that is also an umbrella organization.

Case studies

Case 1. Co-operative Management Education Co-operative (CMEC)

The Co-operative Management Education Co-operative (CMEC) is a co-operative formed to support the educational development of future co-operative leaders.[13]

Central to co-operation, "education, training and information" is the fifth co-operative principle (ICA 1995). Co-operatives continually invest in the education of their members, but fulfilling the need for business management training that reflects the unique character of the co-operative model is needed if co-ops are to reach their full potential as powerful contributors to the economies of their communities. CMEC was created in 2000 by a forward-looking group of co-operators and academics for a clear purpose: to provide management education based on the values and principles of co-operation. Championed by Tom Webb[14] who recognized a need for management training specific to co-operatives, and supported by Sidney Pobihuschy (Co-op Atlantic) and Dennis Deters (The Co-operators Insurance), the idea of a graduate program in co-operative management was born and put to action.

Coming together as co-operatives to fulfil their social mandate, CMEC's members (fifty five co-operatives and credit unions, co-op associations, educational institutions and individuals) formed a complex network to deliver a specific public good: co-op management education based on ethical principles.

Within a year, a masters-level degree program curriculum[15] was developed and approved by Saint Mary's University in Halifax and the Maritime Provinces' Higher Education Commission, and close to $1 million was raised from member donations. Housed in the Sobey School of Business at Saint Mary's University the Master of Management-Co-operatives and Credit Unions program (MMCCU) accepted its first students in 2003.

Today, CMEC collaborates with members in six countries, has faculty in four, and students and graduates in seven. Co-op enterprises represented include food, agriculture, credit unions, and worker co-ops, as well as federations and associations. Additionally, CMEC has formed partnerships with eight educational institutions in six countries. CMEC is democratically governed and decision-making is decentralized. The network is dependent on the relationships and interactions between its members, who provide governance and financial support for the program development and refer students to the program.

Observations

CMEC offers a good example of how, in a multi-stakeholder environment, a shared-values platform can create innovation. CMEC has produced a product – the MMCCU program – that links together different types of members in delivering and supporting a program that is unique in its offerings, structure and delivery.

Characteristics of a complex system are evident: CMEC network is built on relationships between various agents, it is decentralized and democratically governed, and it deepens relationships between co-operative managers in the network. Emergent behaviour and unplanned outcomes are also apparent. For many of the students, the experience has been – in their own words – life changing. Below are some comments from MMCCU graduates:[16]

> *"When we went to Spain on the Study Visit, it was a life-changing event. I remember thinking, 'What if we had this in the U.S.? What if we had this partnering and working together, this kind of concern for community, for helping other co-ops?' A lot of the content of the MMCCU program is not widely available here yet. To some extent, we are co-op management pioneers—helping to create and test the growing body of knowledge."*

> *"I will leave this program with a great feeling of hope for our future."*

> *"The trip to Mondragon alone…was a pinnacle experience, a validation of my work and of the co-op model."*

"Orientation helped us form such great relationships… when we got online to read and respond to one another's postings, that's when the application occurs, that's the real learning opportunity."

"The MMCCU program brings the fundamental co-operative elements to the forefront of your mind, on a day-to-day basis."

"This program made me see the co-operative model as a method of sustainable development that is clearly attainable."

The program has turned into career changing experience for faculty and staff as well. While the MMCCU degree was not necessarily structured as a research program, it has drawn a number of graduate students who excel in research and produce academic publications.

Saint Mary's University is a member of the CMEC co-operative; an unusual institutional arrangement that resulted in positive feedback from the business school accreditation body- also an unexpected outcome.

New networks have been created that span co-op owners, institutional partners, faculty, students and alumni. From these networks, linkages have emerged, particularly among graduates who are in the process of creating an alumni association and participate in governance of CMEC. A research network and international centre to house CMEC, the research network, and other certificate programs for more targeted co-operative education, is in the process of development.

In just over a decade, CMEC has evolved from a loose network of interested co-operators to a successful example of a co-op network coming together to meet their educational needs and empower the next generation of managers to advance the co-operative movement. CMEC is currently undergoing succession challenges that will require engagement from all stakeholders to create an enabling environment for further adaptation. A greater investment in a management structure and resources conducive to an adaptive system will likely be required.

Case 2. HealthConnex

Like CMEC, HealthConnex Health and Wellness Co-operative is a network of independent, interconnected agents (co-operatives, physicians, technology providers, medical staff) who have come together under co-op leadership to provide a public good, in this case health care services.

Owned and governed by 13 co-operatives and credit unions, HealthConnex provides a web-based health and wellness portal that allows Nova Scotians to build and access their own health records, record test results or consultations with medical care professionals, peruse an on-line library of trusted, hi-quality, doctor-reviewed medical information, use an interactive symptom checker to see if and when they need to consult a doctor, and obtain an emergency health card that will let health care professionals access their on-line medical history instantly. It also includes a "trackers" program that will help subscribers establish and track goals, and a "reminders" program that can be set up to trigger emails for anything from "time to renew your prescription" to "time for your next eye appointment". Patients can also, through this portal, interact with their doctors (who they nominate to become part of the HealthConnex network) to renew prescriptions, book real and virtual appointments and request medical advice.

HealthConnex was born of the passion and commitment of two doctors studying inflammatory bowel disease at Dalhousie's school of medicine. Because Dalhousie is the only IBD research hospital in the Maritimes, many patients travel long distances for diagnosis and treatment. Doctors David Zitner and John Ginn believed patients would have better health outcomes if they had better access to communities of interest and reliable medical information to proactively manage their illness. Working on it off the side of their desks for 6 months, they then approached Nova Scotia Co-operative Council with an idea to create a new health and wellness co-operative to, as Zitner puts it, "meet the needs of the community and give patients the care they deserve."

According to NSCC CEO Dianne Kelderman, it then became a simple matter of "synchronicity and destiny." Each year, NSCC's Innovation Council asks its 402 co-operative and credit union members to propose innovative ideas worthy of growth and encouragement or commercialization. In 2007, HealthConnex was chosen that year's $1 million winner and NSCC was given the green light to move HealthConnex from research to implementation. Their target market is the 308,000 members of Nova Scotia's provincial co-ops. Within 2 months of its February 2011 launch, HealthConnex had already enrolled over 500 Nova Scotians. Zitner estimates subscription to HealthConnex will cost patients approximately $120 – $150 a year for basic participation.

The HealthConnex Board is comprised of 7 directors: four represent the owners (13 founding co-operatives and credit unions), two seats are held by Praxis (representing the medical doctors), founder Dr. David Zitner is the seventh director. HealthConnex also works closely with the NS Department of Economic Development and interacts with other organizations within the co-operative sector.

Of the $3 million start-up funding, approximately $1.8 million came from the 13 co-operative and credit union members. Today, HealthConnex is 100 percent funded by member equity, and has roughly $3 million in the bank.[17]

Observations

HealthConnex offers a good example of how co-operation among co-operatives is more likely to create innovative solutions for their members. The need filled by HealthConnex was not met by the private and public sector. It wasn't until it was championed by the co-operative sector itself that the parties critical to making it happen were brought together to look for solutions. It is also a good example of how, when the vision of the drivers of innovation – in this case the physicians involved, and NSCC CEO – is both clear and member-focused, complex networks are created. For Nova Scotia's co-operatives and credit unions, moving into the health care field was something completely new. Based on Zitner's common-sense vision to improve health outcomes for Nova Scotians, co-operative community values were mobilized to create buy-in to a new shared vision of community wellness.

HealthConnex network is a non-hierarchical system that interacts with other organizations – doctors, health care providers, other co-operatives, NS Co-op Council and the general public. Decision-making is decentralized in the hands of clients and their doctors. The open and diverse, relationship-driven system ensures that the network is both responsive to community needs and well-positioned to meet those needs. The importance of the service provided by this complex network is undeniable. More importantly, in the Canadian context of public healthcare provision, and an aversion to its privatization, this not-for profit multi-stakeholder arrangement is a winning solution. Subscribing doctors believe HealthConnex will make their practice more efficient by reducing wait times, providing administrative benefits (on-line appointment booking and prescription refills) and improving access for sick patients. By reducing chronic, non-acute medical visits and improving overall patient health outcomes, HealthConnex can be expected to lower taxpayer expenditures for medical costs as well. There are also benefits for small businesses: with HealthConnex, much of the time taken by employees to attend doctors' offices for routine medical needs can be shortened to a simple phone call.

HealthConnex is a good example of how social mechanisms foster networks and adaptation in a rapidly changing market environment: through HealthConnex, local networks of health care practitioners will emerge to meet the needs of a more health conscious society. This will contribute positively not only to the personal health of residents but also to the economic health of the region.

HealthConnex, like other complex networks, has already produced unexpected linkages and interactions within the system's building blocks that have resulted in innovative but unplanned outcomes. For example, several Nova Scotia credit unions are interested in creating in-branch HealthConnex kiosks – staffed by employees – to help members for whom computer technology is a barrier, access its benefits. The credit unions are also discussing offering subsidized or free memberships to low income members. This represents a very important step for the credit unions. Fostering healthy communities has always been part of their mandate. Removing access barriers to Nova Scotia's new co-operative health and wellness network is a creative and innovative way of supporting community wellness.

Also unintended by the original proponents was the adaptability of this system to the needs of communities beyond Nova Scotia. Discussions with The Co-operators to tailor it for their membership and expressions of interest from a US credit union evidence the resonance this approach has for communities outside of Nova Scotia. This creates "export" revenue for the co-op, supports jobs (design, software, sales) in Nova Scotia and creates the potential for scale efficiencies at a national and international level.

The creation of a new partnership with Nova Scotia's ministry of economic development was also unexpected. Traditionally, funding for such an initiative would have been from the Ministry of Health. The fact that the funding came from Nova Scotia's Department of Economic Development confirms the economic and entrepreneurial benefits created by this innovative approach to providing healthcare. Nova Scotia economic development officials saw HealthConnex as not only economically viable and replicable, but also exportable, with job creation benefits.

An important source of reputational currency and hard cash was created when — to solve problems of access and scale — HealthConnex purchased Beneworth, a management system serving 80 percent

(1,800) of Nova Scotia physicians. Today, over $200 million a year flows from provincial medical plans to doctor's offices through HealthConnex's Beneworth subsidiary. By acquiring Beneworth, HealthConnex turned the provinces' doctors into valued clients, amplifying network buy-in. By piggy backing onto existing medical billing systems, HealthConnex was able to upgrade and enhance services offered to doctors by including, for example, on-line prescription renewals, e-consults and web-booked appointments.

Summary and conclusions

In this paper we examined social network theory and its application to co-operatives as hybrid forms of business organizations that rely not only on market exchanges and hierarchy, but also – by their very nature as member associations – on social interactions. The paper examines various types of networks formed by co-operatives, and focuses on the complex form where co-operatives champion partnerships with diverse stakeholders. We conjecture that the driving force of such co-operative network creation is in the problem solving nature of co-operation, rather than cost minimization, particularly in the case of creation of public goods and/or positive externalities.

We highlighted the role of complex, multi-stakeholder co-operative networks as architects of organizational innovation, making a case that social and organizational innovations through networking, either among co-operatives in a supply chain, or in a complex adaptive framework, are driven by the clear purpose of a co-operative (or a group of stakeholders). This type of collective entrepreneurship highlights the co-operative form of organization as a medium for social coordination through economic activity. Similar to recognition of opportunities in the entrepreneurial context, the clear purpose, or vision, of co-operatives to produce social benefit will drive the 'champions' to look for the right solutions to overcome all obstacles.

We consider co-operative networking to be the driver of organizational innovations, in that it may guide creation of strategic alliances and innovative institutions to support a particular purpose, or it may result in a complex organization. Co-operatives have an advantage in finding solutions through social networking with like-minded organizations sharing common values. Their role as leaders in the formation of complex networks is particularly evident in the provision of public goods, as evidenced by our two cases. CMEC and HealthConnex, two multi-stakeholder co-operative networks, are presented as examples of complex adaptive systems that arose as a result of social entrepreneurship, driven by a common purpose of the agents in the network.

Both CMEC and HealthConnex were convened by co-operative entrepreneurs who shared a clear and member-focused vision with all stakeholders. In both cases, the result was the creation of an important public good – co-op management education and an innovative health and wellness network— to meet needs not addressed by other sectors in the economy. In both cases, the focus has been member benefits, rather than financial gains. And in both cases, had the co-operative sector not stepped in to build the networks, they would not exist today. Moreover, the co-operative model offers an innovative way to deal with the quasi-public ownership arrangement when member-control is vital but private ownership is not the best solution, such as the case of Canadian healthcare.

For both CMEC and HealthConnex, shared buy-in and democratic decision-making by the membership was critical to their success and expansion. The dynamic and autonomous linkages arising from co-operative networks have resulted in numerous unplanned actions that continue to influence and shape the outcomes of both networks in beneficial and resonant ways.

Notes

1. See the transactions costs literature, lead by Williamson 1975.
2. Eccles 1981 uses the term 'quasi-firms'
3. Generally speaking, networks are referred to in the literature either as inter-organizational linkages, or as mechanism of support to entrepreneurs in which case they refer to personal social networks. We consider networks among organizations, but often these imply personal connections as well.
4. Jones et al 1997 discuss four social mechanisms: the macroculture of organizations; restricted access to the network; social sanctions; and reputation. All four of these mechanisms apply to co-operatives (Bijman 2005)
5. When the balance shifts in favour of market mechanisms or hierarchy, it is described in the co-op literature as the lack of member-engagement, 'identity crisis' of co-operatives (Cote 2001.), or the degeneration of co-operatives that may end in demutualization in extreme cases (Cook, 1994).
6. Co-operative identity statement, ICA 1995 the Sixth Principle of Co-operation.

7. Ibid.
8. Member needs in case of co-operatives.
9. The functions of the umbrella organization (federation or league) examined in Smith 2004b are to support entry, reduce exit, sustain democratic ownership and control, solve organizational problems, explore joint ventures and strategic alliances, innovation and technology transfer, finance, mitigate risk, employment policies.
10. Taylor and Levitt 2005 draw their findings from the construction business. We believe their conclusions are relevant for other industries, but this warrants further research.
11. Stocki, Prokopowicz and Zmuda 2010 talk about Total participation, and identify need for total participation management (TPM). Also see Hough and Novkovic (2011)
12. The Darwinian 'survival of the fittest' often translates to 'most profitable' in economics literature. Co-operatives often operate in hostile / non-supportive environments, and need a different measure of fitness. This will depend on their purpose and membership. Fitness can also be a 'moving target', i.e. changing over time – another feature of complex systems.
13. CMEC http://www.smu.ca/academic/sobey/mm/cmec.html
14. MMCCU designer and program's first manager.
15. Comparable to a conventional Master of Business Administration program, the MMCCU program is unique in that it places traditional business knowledge and skills – e.g. accounting, finance, marketing, and people management – within the broader context of the co-operative model; fulfilling the requirements of a business school but guided by and responsive to co-operatives and their priorities.
16. http://www.smu.ca/academic/sobey/mm/about_student.html
17. In 2010, HealthConnex raised close to half a million from 19 individuals who purchased shares under the province's Equity Tax Credit program.

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Freedom to Set Up Enterprises as the Basis for Economic Development: The Case of the Kenyan Co-operative Movement

Esther Njoki Gicheru

Abstract

Co-operatives in Africa have gone through many decades of struggle for autonomy and independence, in both colonial and post-colonial governments. It is only now that in Kenya we find co-operatives getting focused to the members, and understanding the importance of member relations but much more work needs to be done in terms of co-operative values and principles to ensure reasserting of the co-operative advantage. The safest approach is to change the culture and values of the managers and leaders of co-operatives to ensure that the content as well as the form of co-operative values, processes and purposes match the needs of and are communicated to all stakeholders. The paper concludes that co-operative enterprises need to respond to the intensification of competition as the globalization of economies and markets continues. One key part of the co-operative response must be in terms of developing a global market presence.

Co-operative enterprises in around the world, and particularly in Africa, have had a rugged development history but have shown great resilience and made tremendous contribution to the socio-economic development. Although the initial stages were dominated by paternalistic government promotion and protection, Co-operatives in Africa, and more so in Kenya, have emerged as important enterprises that serve the economic, social needs of their members and their broader communities. Co-operatives in Kenya have gradually gained more space in terms of freedom to set up enterprises and are currently represented in virtually all sectors of the national economy and are key players in the global Co-operative Movement at number 7 in terms of number of Co-operative enterprises, their membership, capital base and contribution to GDP (ICA, 2008).

On 11th February 2010 the United Nations General Assembly proclaimed 2012 as the International Year of Co-operatives via resolution 64/136 at its 64th session stating that it recognizes the important contribution of Co-operatives enterprises as becoming a major factor of economic and social development and contribute to eradication of poverty because they promote the fullest possible participation of all people, including women, youth, older persons, persons with disabilities and indigenous peoples (www.ungas.org). The global Co-operative Movement is celebrating the International Year of Co-operatives under the theme that Co-operative enterprises build a better world to underscore their resilience to crisis over other forms of enterprises (Birchall, et al. 2009). This study reveals during financial crisis financial co-operatives remained financially sound, agricultural co-operatives continued to show surplus, consumer co-operatives continued to report increased surplus, workers co-operatives saw growth and that people are increasingly choosing the Co-operative form of enterprise to respond to the new economic realities.

ILO (2009) argues that Co-operatives must occupy key space in the world because they play productive and protective roles as economic enterprises and self-help organizations rooted in communities and founded on values of solidarity and inclusion, they can help bring needed balance between economic, social and environmental pillars of strategies for sustainable development.

It has been argued (Helm, 1968) that Co-operatives are member-owned, democratically-controlled owner-user enterprises whose role is to cater for the social and economic needs of society that the state, the private sector, big capitalist enterprises and small family businesses may not be able to satisfy. Co-operators believe that it is possible to change the world socio-economic order by using Co-operatives to build good society guided by mutual co-operation, not competition; motivated by need to build moral character, not profits; creating human dignity, not wealth. The primary purpose of a Co-operative is to satisfy the social and economic needs of its members. On the other hand, the primary purpose of a trading company is to maximize profits for its shareholders. However, co-operators recognize that successful organization and management of Co-operative enterprises must combine the desirable approaches of other enterprises such as the service spirit of the state, the efficiency of the capitalist enterprises, the entrepreneurial culture and independence of the private sector, and the proximity and social touch of family business.

Research by ICA (2008) reveals that the top global 300 co-operatives alone are responsible for an aggregate turnover of 1.1 trillion USD, which represents the size of the 10th largest economy, employ over 100 million people (more than multinational corporations) and contribute to increased agricultural productivity, expanded access to financial services and critical socio-economic development. The study also revealed that, besides their major contribution to household incomes and social stability, Co-operatives make a significant contribution to national economies including around 45% of GDP in Kenya and 9% in Vietnam.

About a decade ago, the World Bank acknowledged the development potential of Co-operatives provided that they were restructured and disentangled from the state, and run on business principles in line with the market economy (Donge, 2011).

Like in many countries across Africa, in Namibia the co-operative movement is contributing to the well being of many people , especially in rural areas where co-operatives have been established in the sectors of livestock marketing, seed production, savings and credit, arts and craft, indigenous plants processing, tourism and small scale mining (Pohamba, 2011).

Freedom to set up enterprises refers to the potential for individuals to establish business entities without undue hindrances of policies, legislations and regulations. In Kenya there is widespread freedom to set up enterprises especially in the informal economy and Co-operatives in particular.

The report of the World Commission on the Social Dimensions of Globalization recognizes that the process of globalization requires a strong social dimension based on universally shared values, and respect for human rights, individual dignity; one that is fair, inclusive, democratically governed and provides opportunities and tangible benefits for all countries and people (www.ilo.org/wcsdg).

Globalization, however, driven by the political ideology of liberal free market capitalism has led to increased concentration of global capital based business in virtually every sector of economic activity. This has resulted in a global shift of income distribution from wages to corporate profits (Ellwood, 2005, p71). The overall conclusion on the impact of Trans National Corporations (TNCs) on the host country is that "-overall dominance by foreign firms is almost certainly undesirable from the host country viewpoint." (Dicken, 2007, p472) Africa is again finding itself being denuded of raw materials not this time by colonial powers but to feed the exponential growth of the emerging Far Eastern economies which in turn are providing cheap consumer goods for the North American and European economies. The political cultures of Africa have yet to find an effective response that defends African interests and ensures infrastructure developments and wealth creation opportunities that will advance the poor. In these circumstances liberalization that genuinely empowers co-operatives rather than private foreign corporations may well be the most effective response for African governments to adopt.

Formal co-operative enterprises were introduced to Africa by colonial governments for three main purposes; to increase cash crop production to provide raw materials in home countries, levy tax and control economic activities, and protect settler farmers against exploitation from money-lenders and traders. Co-operative organizations and development agencies had placed considerable emphasis on the development of co-operatives in Africa.

In the former British Colonies, co-operatives were created in the early 1930s according to the British – Indian pattern of co-operation and accompanied by a special co-operative Act and the establishment of an implementing agency i.e. the Registrar of Co-operatives or Commissioner for Co-operative Development. Later, the Colonial administration undertook systematic efforts to develop co-operatives into powerful business ventures that, through a vertical structure, controlled much of agricultural production, marketing and processing in rural areas. During colonial period, co-operative enterprise owned by settler community was economic, as co-operatives operated in a free market and did not involve direct government control.

Under colonialism co-operatives were seen as intermediate form between the traditional, subsistence-based economies of the pre-colonial societies and the modern market economies of the West. They had also had the advantage, for the colonial administrators, of being economic rather than political organizations that did not threaten colonial rule.

After independence, most governments of sub Saharan Africa laid much emphasis on co-operative development in the agricultural sector. This led to an "efficient", state-controlled co-operative movement that did not meet members' needs, but became a heavy burden on state budget. Genuine co-operatives developed only outside the agricultural sector, where many of them achieved remarkable progress. The Co-operative Societies' legislations did not allow much freedom and were confined to industrial crops for export. Traditional subsistence crops were not given much attention. Once the native Africans were allowed to form them, Co-operatives faced more and more control. Indeed the colonial and independence governments were suspicious of widespread group action because of the political responsibilities they take in lobbying and advocacy. The role of co-operatives in economic development was thus minimized, as it suffered four limitations of low member control, inadequate access to credit, poor transport and communication facilities and a very unfriendly tax regime whose overall effect was to stagnate efforts of enterprise development.

Structural Adjustment Programmes (SAPs)

The state controlled "co-operatives" were severely affected by the structural adjustment programmes (SAPs) that many African states adopted in the 1980s and by the democratic reforms of the 1990s. The "co-operatives" lost protection and support while their members became more aware about their democratic rights. This resulted in a sharp decline in the number and turnover of state- sponsored co-operatives and emergence of multitude of grass-root initiatives.

The Case of Kenya: The role of Government in Co-operative Development

In Kenya, as in other parts of Africa, co-operatives were sponsored, nurtured and developed by governments – in the colonial as indeed in the post independence era. Support to co-operatives emanated not only from government but also from other well meaning co-operative development agencies. The motive for promoting co-operatives may have differed between that of the colonial regime and that of the national government, but there were three striking commonalties in their approach to co-operative development: (a) Government intentions with regard to co-operative development did not always coincide with those of co-operative members (b) there was strong government control of co-operatives which often compromised the democratic rights and privileges of members, and (c) Government policies and laws relating to co-operatives were designed to entrench state control and benefit.

The application of the metaphor of the "carrot and the stick" would imply that the carrot was offered in the form of government support, protection, privileges and concessions extended to co-operatives, particularly so in the post independence period. On the other hand, the stick was in form of a legal framework that gave government unfettered control of co-operative governance and management. Support came in the form of free government technical advice on governance and management, audit services, education and training, arbitration and general guidance. Co-operatives were protected from competition by being granted complete monopoly in the collection and marketing of major cash crops; privileges and concessions in the form of special grants, "soft" loans and tax relief. The role of the state in the Co-operative Act of 1966 thus was four-fold:- to promote co-operatives, register, regulate or control them, and generally getting involved in their day to day management. Such roles resulted in many cases in many co-operative officials being removed from office and replaced by Management Commissions at the pleasure of the Commissioner for Co-operative Development. Worse still was the fact that the people appointed into these commissions were District Commissioners and others from the general public administration, most of whom lacked knowledge and skills in co-operative matters. Their performance was, to say the least, wanting in most instances and suspect to most members who felt disenfranchised.

Insulated as they were, one would say that Co-operatives became "spoiled" over the decades as they increasingly depended on and basked in the complacency of external support and protection. Focus on competence, efficiency, business acumen, entrepreneurship, initiative, self sustenance, transparency and accountability to members – all of them constituting some of the conditions necessary for genuine and successful co-operative development – became marred as co-operatives continued to be protected, controlled and manipulated.

At independence in 1963 the Government embarked on what it called Africanization of the economy whose major policy thrust was contained in the Sessional Paper No. 10 of 1965 which advocated for principles akin to those adopted by the co-operative movement.

These included individual freedom, freedom from want, disease and ignorance and exploitation, equitable sharing in its benefits, expansion and the integration of economy. To achieve these objectives, certain strategies were adopted among which creation of income generating opportunities, control of population growth through family life education, health care and water supply and provision of an enabling environment through relevant policy changes to enable the private sector to play a leading role in the economic development of the country.

Co-operatives were thus considered suitable vehicles with an appropriate framework to achieve the aspirations of the majority of Kenyans in participating in economic development. This led to the enactment of the Co-operative Societies Act (Cap. 490) Laws of Kenya in 1966. The implication of these developments were that the government would use co-operatives as vehicles to achieve its socio-economic development agenda.

The basic values of co-operation, equity, equality and mutual self-help which give the development of national co-operative structuring a unique character were not applied. If co-operative societies are seen from the perspective of basic co-operative values they have to be perceived as self reliant, self-help organizations, owned, managed and controlled democratically by their members. This was not the case as the state was very keen to control co-operatives to facilitate its development initiatives. This phenomenon was particularly in the agricultural sector. Indeed the degree of freedom from government control differed between varied sectors. For example the financial services sector at work places has had more degrees of freedom than agricultural marketing co-operatives. It is also true that industrial co-operatives as well as women groups have also had more degrees of freedom as compared to agricultural marketing.

These differences existed within the co-operative movement irrespective of the same instruments of policy and legislation. For example where co-operatives touch at the heart of the economy, there were always more controls than where co-operatives are in a less important sector of the national economy. Within the less important sector there will be more freedom of enterprise development. Sadly, the overwhelming interference of political and administrative authorities in the management of co-operatives set up haphazardly soon generated a feeling of indifference among the very population supposed to constitute the membership of such co-operatives, particularly so in the agricultural sector.

On the other hand the Savings and Credit Co-operatives (SACCOs) give a good example of genuine co-operative work with strict member orientation, the requirement of a common bond uniting the group of members, self sufficiency in raising the required capital and strong emphasis on membership and leadership training.

For co-operative members to benefit from the co-operative action, there has to be freedom of choice of association and enterprise development. Such association should be spontaneous. Suffice to say, Co-operative societies are about the co-operation of individuals. This co-operation must be beneficial to each individual in such a way that it must meet the needs and aspirations of the individual. These needs may not be static; they may evolve and change with time. It is important to identify what these needs are and their evolving nature so as to be able to predict or anticipate changes in needs and aspiration of members in order to appropriately modify conditions of co-operation.

Thus, both in the colonial and post independence period, members of co-operatives were hardly ever prepared to chart their own destiny. The post-independence government in Kenya became convinced that co-operatives provided the most suitable and ready means of involving large masses in economic and social development. In addition to mainstreaming the masses in economic and social development, co-operatives were seen as ways to assure the supply of selected produce, to implement indigenisation schemes, to organize distribution, carry out land reforms and generally create development. The reason for identifying co-operatives as one of the vehicles for socio-economic development was that Co-operatives were considered to have direct roots in African traditions and their extensive use in the monetary sector of the economy would ensure greater discipline and training than it had been necessary before. It was also believed that those who share in the tasks of co-operatives or who use its services share also in its benefits as the co-operative belong to them.

By the 1970s, there were great disappointments for the agricultural co-operatives. Voluntarism almost was dead; co-operatives relied too much on governmental guidance; members were compelled to deal with only certain co-operatives and the government introduced laws that only helped to entrench itself in the daily affairs of co-operatives.

Scholars *(Munkner and Shah, 1993)* note that the co-operatives that emerged during this period were characterized by the following eight features: (i) total dependence on state patronage and support (ii) not able to develop own managerial competencies and over reliance on government (iii) responsibilities which should otherwise have been shouldered by co-operatives were taken over by the state (iv) committee members became more of rubber stamps and implementers of government policies thus hampering creativity and entrepreneurship (v) co-operators (members) who thought of co-operatives as mere extensions of government as opposed to their own private self-help organizations (vi) Co-operatives failed to enlist people as active members and to give them full benefits of membership (vii) corruption became rampant in co-operatives, and (viii) Co-operatives faced many delays caused by the cumbersome bureaucratic procedures in the government, a situation that demoralized members further.

Where is Kenya now? The Current Co-operative Development Policy

The Kenyan economy is heavily dependent on the co-operative sector. Government (Nyaga, 2011) indicate that Kenya has over 14,000 Co-operative enterprises and organizations owned by around 10 million members, with a capital base of approximately 300 billion Kenya Shillings (USD 4 billion) and employing over 300,000 people. The contribution of co-operatives to the GDP is estimated to be 45 per cent while, on national savings and deposits, the contribution is 31 per cent. These statistics show that 8 out of 10 people in Kenya benefit directly or indirectly from Co-operatives as member-owners, employees, elected leaders, dependants of co-operators and operators of secondary services that are used by Co-operatives.

Co-operative enterprises and the co-operative movement appear set to grow even more because people are venturing in new areas as the old co-operatives continue to become more innovative. SACCOs are opening front office services (banking services), offering new products such as money transfer and automated teller machines (ATMs), expanding their membership common bond to increase membership and offering trading business activities such as constructing rental buildings and shopping malls. Transport Co-operatives are now operating garages, petrol stations and insurance agencies closer to their customers and communities. Most dairy co-operatives are cooling their milk, packaging and processing to make diverse dairy products such as yoghurt, cheese and butter. Co-operative unions are no longer depending only on affiliation fees from their members but are venturing into income generating activities such as manufacture of animal feeds, maize meal and transport business for their members and the public. Whereas this trend is bound to broaden clientele increase revenue base, there is need to carry out research to find out its effect on the co-operative spirit and quality of service delivery to members.

Pointing out that co-operatives are special and unique business enterprises, Kobia (2012) identifies Co-operative Insurance Company (CIC) of Kenya, the Co-operative Bank of Kenya and the Kenya Union of Savings and Credit Co-operatives (KUSCCO) as some of the co-operatives that were established in 1960s but have continuously managed to innovate, survive and thrive in a competitive environment. He identifies new areas of co-operative business including youth-owned and youth-controlled Co-operatives in the areas of information technology, agriculture and finance; women-owned and women-controlled co-operatives especially in handicraft and agriculture; community-based initiatives such as power-generation, environmental conservation, bee-keeping and raring of chicken and rabbits.

To accommodate Kenya's rising population, co-operatives that allow and encourage common ownership of properties will be the best alternative model for development to that of capitalist industrial enterprise and will be the safest and surest way of providing for the needs of Kenyans.

Like other sectors of the national economy, the co-operative sector is undergoing changes that are posing challenges to its organization and future role. An important factor expected to impact on the co-operative sector is the ongoing and apparently irreversible trend towards globalization of economies. It is anticipated that globalization will introduce new products into the domestic market and stimulate consumer demand hence increasing the opportunities for adding value to existing products. Co-operative members demand for quality services and their ability to choose from a range of sector based service providers should encourage co-operatives to improve the quality of services and operative efficiency.

Research by ILO (Schwettmann, 1997) shows that the role played by co-operatives in the National economy includes marketing of agricultural produce; mobilization of domestic savings; investment and property ownership, value addition, and employment creation. Furthermore, co-operatives generate employment through the establishment of linkages between firms, farms, market centers and also through the provision of credit for collective and individual investments.

The pre-liberalization policies related to state-controlled co-operatives. Now, due to liberalization, co-operatives like other sectors of the economy have to perform without close state intervention. The government has stated in the Economic Reform Policy its intention to "move further away from direct participation in economic activity and towards the provision of an enabling environment for private sector development with emphasis on policies which are environmentally friendly and which encourage labour using growth."

The current policy towards co-operative development is contained in Sessional Paper No. 6 of 1997. The policy provides a framework for "Co-operative Development in a Changing Economic Environment", and the co-operative management approach. The legal framework has made provision for and acknowledged the Co-operative Principles and written them down to define and distinguish the co-operative form of organization from other types of organizations.

Under the Act of 1997, the Department of Co-operative Development, was restructured to conform and be able to address the newly emerging needs of the liberalized movement. The current role of the department is largely regulatory and facilitative in nature, aimed at creating a conducive environment for development of an autonomous and self -sustained co-operative movement.

Whereas the government is interested in a healthy growth and development of co-operatives (they) are expected to manage their own affairs in accordance with the universally accepted co-operative values and principles. Government is however concerned that all stakeholders in co-operatives including members and creditors are adequately protected.

The economic reforms implemented have triggered off the dismantling of the monopolistic powers enjoyed by various co-operative societies prior to 1997. In a number of areas aggressive private firms have been formed. It has however been observed that the co-operative organizations were not prepared and had a hard time changing and adjusting to the new competitive environment. The development of membership through training and everyday transactions and practices of co-operatives had been ignored. The Boards of management showed a lack of commitment or real understanding of co-operation and this coupled with greed led to very limited capacity of the movement to respond vigorously and effectively. The collapse of the apex, many national Co-operative organizations and second-tier co-operatives (unions) was inevitable. The co-operative model acquired a bad image in the eyes of their members and the international community.

But, the important thing is that, in spite of what happened at apex, national and union levels, many co-operative organizations at grassroots level that survived continued to thrive. The very need for united action has continued to bring people together to find solutions to their problems!

Co-operative Legal Framework

In Kenya and this seems to be the trend in other African countries, there is a seemingly renewed interest in the co-operative model by governments and international donors. It is hoped that Kenyan as well as other African governments will learn from past experience and do it right this time! That is the Government should limit its role to the promotion of a conducive environment for co-operative growth and development. The current revision process of the Co-operative Legal framework in Kenya has invited some concerns from the stakeholders. With the purpose of contributing to a legislation that will correctly reflect the respective roles of the government and the movement, the co-operative organizations have made a joint effort to comment on the draft Co-operative Societies' Amendment Bill 2003.

The co-operative movement has also shown keen interest towards a profound discussion of the Co-operative Development Policy and a specific legal framework for Savings and Credit Co-operatives (SACCOs). Co-operatives, on the other hand, also need to learn from their past experience. Once given the freedom, it is an opportunity to demonstrate their capacity and ability and show to the rest of the community that they are truly autonomous, independent and capable of self-governance.

Way Forward

Co-operatives and other economic groups in the associative economy have a future in Kenya as they provide the poor with opportunities for self-help promotion and self-reliance. Some measures/strategies however need to be taken which could change the nearly tarnished image of co-operatives to institutions which could truly enable members and the public to realize their own development needs. But such measures should embrace the need to allow for democracy to grow from below. A strong member-base is imperative for the development of a strong and legitimate movement. Co-operatives must look upon member and members' influence as an opportunity, not a threat.

Co-operative leaders must be accountable and transparent to members. They have the right to know and influence the state of affairs of their organizations. Leaders on the other hand should be business oriented, entrepreneurial and visionary. There should be allowance for the young generations to influence upon visions and strategies of co-operatives. Space must also be created for women not only for sake of justice, but also to achieve development. This is a resource which up until now has been more or less untapped and unexplored in the co-operatives movement. The role of government in co-operatives should be development of educational, accountability, transparency and good governance instruments for self-control.

Co-operative legislation should allow more freedom while the co-operative development policy should elaborate on the need to diversify. The co-operative enterprise is about people's needs and must support the needs of the local community. Such environments which are basic to the overall investment climate that can promote twinning, collaboration, partnerships and linkages must be tackled in the context of preparing for a conducive investment-climate by ensuring rapid economic recovery, wealth and employment creation, poverty alleviation through co-operatives.

Co-operative human resource management (HRD) institutions must also play a part to embrace empowerment of members as an absolute necessity. Empowerment means the enhancement of the capacity of members to influence co-operative organization through being confident and assertive, transparent and able to accept criticism; full participation in policy making processes and decision making of the co-operative; planning their co-operative activities; identifying their problems and how to solve them; developing capacity in accessing to resources; patronizing their co-operative societies; being innovative and search for new knowledge and alternatives and be able to engineer and manage changes; being able to identify and search for services needed e.g. training, auditing and inspection; being able to hold management accountable and demand answers and explanations from them; and being able to analyze and assess their business performance and profitability/loss.

Such a member will have the ability to visualize her/his future better and to assess her/his role more accurately in the shaping of that future then and only then can co-operatives be established as free enterprises and be a basis for economic development.

Conclusion

The paper concludes that co-operative enterprises' need to respond to the intensification of competition as the globalization of economies and markets continues is obvious. One key part of the co-operative response must be in terms of developing a global market presence. Another requirement is that a significant proportion of co-operative investment is placed in the knowledge based industry where the highest growth rates are found. Kenya's Co-operative Movement must ensure that it is technologically at the forefront both in the relevant technologies for the areas of activity that it already occupies and those new sectors that have yet to enter. Without technology co-operative agricultural marketing will continue to be wrong footed and by the sophisticated capital based firms procurement processes. They must move up the value chain in terms of processing packaging and distribution. Co-operative Banking must focus on local co-operative employment and enterprises to help shift both labour markets and national economies away from overdependence on mineral extraction for export and foreign direct investment. The economic significance of a renewed and reinvigorated co-operative sector enabled to participate fully in the liberal economic market freed from current restrictions is clear. Just as important is the movements role in helping to develop a more sustainable and independent African civil society concerned to raise the welfare of the people to the top of the agenda for Africa.

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Commission on Credit Unions 2011: A Report from the Irish League of Credit Unions

Kieron Brennan

Introduction

The Commission on Credit Unions was sought by the Irish League of Credit Unions (ILCU) prior to the 2011 General Election and a commitment was given as follows by the coalition partners in the Programme for Government to establishing the Commission:

> *"We recognise the important role of credit unions as a volunteer co-operative movement and the distinction between them and other types of financial institutions. In government, we will establish a commission to review the future of the credit union movement and make recommendations in relation to the most effective regulatory structure for credit unions, taking into account their not-for-profit mandate, their volunteer ethos and community focus, while paying due regard to the need to fully protect depositors savings and financial stability."*

The Government established the Commission on May 31st 2011 and the first meeting took place on June 20th 2011. Under its terms of reference the Commission is to:

1. Define the role of credit unions in the context of a restructured financial services sector
2. Propose a model for modern credit unions and define the structure/parameters within which financially viable credit unions will operate
3. Examine options for restructuring
4. Examine shared Services
5. Determine and set out the basic governance and regulatory requirements that must be met
6. Make recommendations for legislative change.

Deposit protection, resolution, stabilisation, liquidity and governance

The Interim Report of the Commission was published on October 14th 2011 and the final report is due to be published by the end of March 2012. The recommendations of the Interim Report are outlined below.

Deposit Guarantee Scheme

The Commission recommends that credit unions remain subject to the general deposit guarantee under the Financial Services (Deposit Guarantee Scheme) Act 2009 and that their financial contributions under the scheme should commence.

Viability

The Commission recommends a number of factors to be taken into account when assessing a credit union's viability, including capital adequacy, loan impairment and delinquency, investment impairment, governance capacity and ability to restore capital reserves.

Resolution

The Commission recommends that the resolution powers intended to be granted to the Central Bank under the Central Bank and Credit Institutions (Resolution) (No.2) Bill 2011 when enacted, should be considered for those credit unions that meet the intervention conditions or grounds set out in the Bill.

Stabilisation Mechanism

The Commission recommends the establishment of a steady state stabilisation mechanism for credit unions that are facing difficulties but are otherwise considered by the Central Bank to be 'viable'.

Stabilisation actions to be carried out by the Central Bank should include the provision of technical and financial advice, mandatory changes to governance structures, changes to the business and operations, and capitalisation of the credit union. Stabilisation should be time-bound and any credit union that fails to comply with the conditions of the stabilisation process should enter the resolution process.

Stabilisation Fund

The Commission recommends the establishment of a statutory stabilisation fund, financed by credit unions and controlled and governed by the Central Bank. A statutory credit union stabilisation oversight committee should be established and should report its conclusions to the Minister for Finance and the Governor of the Central Bank. The work of the committee will not in any way interfere with the independent authority of the Central Bank to act as it sees fit within the statutory framework.

Risk Management

The Commission recommends that each credit union must appoint a risk management and compliance officer and that the credit union's annual report should include a risk management and regulatory compliance statement. The Commission recommends the adoption of risk management and compliance systems for credit unions. The risk systems should address, among other things, lending, liquidity, investment and operational risks and should involve the preparation of a Risk Management Plan.

Internal Audit

The Commission recommends that each credit union should develop an internal audit function.

Fitness and Probity

The Commission recommends that Part III of the Central Bank Reform Act 2010 be commenced for credit unions. This will provide the Central Bank with the powers to set out the Regulations and Code of Fitness and Probity for the credit union sector.

Minimum Competency Requirements

The Commission recommends that the Central Bank set out a Minimum Competency Code for the credit union sector that would take account of the voluntary ethos of credit unions.

Regulation of credit unions

The Commission recommends that the powers and functions intended under the Central Bank (Supervision and Enforcement) Bill 2011 be applied to credit unions. The Commission notes that there is an urgency to the issues involved. However, the Commission could not, at this time, arrive at a single position as to the statutory mechanism for applying these powers and functions to credit unions.

Prudential Rule Book

The Commission recommends the introduction of a Prudential Rule Book, to set out in detail what is required of credit unions in each of the relevant areas. The rulebook will draw on the regulation-making powers of the Central Bank (Supervision and Enforcement) Bill 2011 with additional provisions where required.

Impact of New Regulations

When setting out a new regulation, the Commission recommends that the Central Bank undertake a Regulatory Impact Analysis in line with existing requirements and best practice. The Regulatory Impact Analysis should be cognisant of the new regulation's impact on the development of credit unions.

Proportionality of Regulation

The Commission recommends that the regulation of Irish credit unions should be based on the complexity of their individual business models and the level of risk undertaken by individual credit unions.

Administrative Sanctions

The Commission recommends that the Central Bank's administrative sanctions regime under Part III C of the Central Bank Act 1942 should be extended to credit unions.

Discussion

The interim report sets out a range of recommendations that are intended to strengthen the credit union regulatory framework and provide for more effective governance and regulation. These recommendations will inform the proposed credit union legislation that will be laid before the Oireachtas by the end of June 2012.

While this interim report and the resulting proposed legislation will make a significant contribution to the necessary reform and development of the credit union sector in Ireland, the work of the Commission is not complete. In the second phase of the Commission's work it will turn its attention to setting out a strategy for the future evolution of the credit union sector.

The credit union movement in Ireland continues to play a crucial role in helping to meet the financial, economic and social needs of many people and their communities. Just what that role will be, will be greatly determined by the full implementation of the commission's recommendations.

The Irish League of Credit Unions wants the Irish credit union movement to provide a full range of financial services to its members and to all who wish to avail of such services. We believe that this can be achieved through a regulatory and legislative framework that:

- Facilitates the delivery of a full range of personal financial services to all members
- Creates the flexibility which will allow for various models of credit union development
- Enables and encourages various forms of co-operation among credit unions
- Preserves the movement's social, volunteer and community ethos
- Preserves local identity and autonomy while enabling credit unions be a part of greater movement co-operative alliances
- Facilitates the creation of movement owned infrastructures in information technology, payments and other appropriate areas to achieve the above.

While our members struggle with the severe personal impacts of the current economic climate, their credit unions are doing their best to serve them and will continue to do so in the proud tradition of *"not for profit but for service"* that has been the movement's hall mark for over 50 years. The credit union movement will build on the successes and lessons of the past to ensure that credit unions continue to play a crucial role in meeting the financial, economic and social needs of our members, we will ensure that the necessary reforms and developments take place.

Welcome to the Amazing Power of Co-operatives 2012 International Summit of Co-operatives

QUEBEC INTERNATIONAL
2012 SUMMIT
OF COOPERATIVES
THE AMAZING POWER OF COOPERATIVES
QUEBEC CITY, CANADA
OCTOBER 8 - 11, 2012

During the United Nations' International Year of Co-operatives, decision-makers and influential figures from the international co-operative and mutualist community will be meeting in **Quebec City, Canada**, to participate in the 2012 International Summit of Co-operatives.

The Summit's theme is "The Amazing Power of Co-operatives" and its mission is to **offer solutions** that will promote the development and performance of co-operatives and mutuals so that they are better prepared to meet the **economic and financial challenges** they face.

Taking Stock of the Irish Credit Union Movement: An opportunity to guide change

Kevin Johnson

Introduction

As the Irish financial services industry faces sweeping reform in the areas of regulation and legislation, in a government attempt to prevent the levels of financial irresponsibility seen during the Celtic Tiger years ever occurring again, how can the country's credit unions prepare themselves for what is to come, and what might they expect?

Their destiny, it seems, will be largely determined by the Commission on Credit Unions, established earlier this year by the Irish Government to assess what the future might hold for Irish credit unions and make recommendations to the Minister for Finance on the role and regulation of credit unions going forward. The Commission's brief includes making recommendations on the most suitable regulatory structures for credit unions to ensure that members [depositors] are fully protected on a par with their counterparts in the banks, while remaining sensitive to the facts that credit unions are firmly rooted in a voluntary ethos, do not operate for profit and are an integral part of the local communities in which they operate.

It certainly seems that the Commission is supportive of credit unions and what they are trying to achieve, as evidenced by the words of the Commission's Chair, Prof. Donal McKillop:

"Credit unions play an important role in Irish society… While the members of the Commission bring a lot of knowledge and understanding of credit union issues to the Commission's work, they recognise that many members of the public, in particular the many thousands of people who work for credit unions on a voluntary basis, have a lot of experience and knowledge of credit unions that will enhance the work of the Commission."

While the Commission will have great influence on the Minister, that is not to say that the Commission will not itself be guided by interested parties, and, to this end, it has already sought submissions from members of the public and other interested parties on issues pertaining to the future evolution of credit unions. We have already seen, in the Commission's interim report, recommendations for increased regulation and the updating of existing legislation in order to support a viable credit union movement in Ireland into the future.

Aside from the public consultative process, the Commission will also be guided in its work by international best practice and the EU/IMF Programme of Support for Ireland, which has already requested a "comprehensive strategy to enhance the viability of the credit union sector", according to the terms of reference of the Commission.

Redefining the credit union sector?

The Commission is quite all-encompassing in its role of trying to redefine the credit union sector. Some of the areas it will consider are as follows:

- The Commission will revisit a number of pieces of legislation around credit unions in light of proposed or expected changes to the financial system. These will include the Credit Union Act 1997, Friendly Societies Act 1896 and Industrial and Provident Societies Act 1893. The Commission will look at these documents and analyse the legal provisions therein relating to governance and deposits and lending, as well as looking at the traditional objectives of a credit union in the context of a modern financial system, and recommend the necessary legislative changes needed to modernise the system.
- The Commission will carry out a strategic review of the sector, looking at the strengths and weaknesses contained within.
- Most importantly, the Commission will propose a business model to be adopted by viable credit unions wishing to continue providing the services required by their members.
- Options for restructuring and merging of credit unions will be considered: Of course, too much consolidation would fly in the face of the credit union ethos of being a local, easily accessible and friendly institution. Proposals for credit union restructuring have already been issued by the Central Bank of Ireland and the Commission will examine these in depth, including the suggestion of reducing the total number of Credit Unions from over 400 to between 100 and 150. However, consolidation may not be an option for some unions and some may be closed down altogether.
- Areas of potential synergy will be looked at: Perhaps credit unions can use shared and/or centralised services to provide major cost savings and thus remain viable.

A chance to engage

In light of the Commission's wide-ranging brief, this is an opportune time for all credit unions to partake in the consultative process, share their views and contribute to the agenda, and of course those within the credit union movement are best placed to inform constructive dialogue. However, for this to be a credible vehicle of expression there must be leadership and some consensus from within the credit union sector.

Already, the Credit Union Development Association (CUDA), a progressive representative and development association working on behalf of member-owned, member-directed and professionally managed credit unions in Ireland, has taken a very proactive role, making frequent submissions to the Commission on behalf of its members. Such contributions to the Government agenda can only be positive.

At least by making submissions, CUDA may help to galvanise opinion with regard to the direction and shape of credit unions in the future, although CUDA recognises that credit unions must have the freedom to exercise democratic choice insofar as possible when it comes to individual credit unions running their own ship, as it were. Therefore, CUDA does not advocate a one-size-fits all regulatory template, but does seek to inform the debate and participate as much as possible to take full advantage of the opportunity being afforded to it and its members for future self-direction.

Of course some credit unions have become entrenched in outdated or ineffective positions and strategies and by not engaging with the inevitable spectre of change, they are likely to suffer adverse consequences when the sector gets an overhaul. CUDA would argue that it is absolutely crucial for all credit unions to participate in this rare opportunity to guide and influence policy, regardless of their stance. If credit unions do not take this chance, it would be rather akin to an individual who does not exercise their right to vote and then complains about the outcome of the election.

The new landscape

So, after consultation and dialogue, what are the key elements CUDA would like to see in a sound regulatory framework? It would ideally take account of the unique nature of each credit union and allow for diversity of credit union structures. Good regulation will assist the State in fulfilling its obligation to protect consumers of financial products from future shocks to the financial system. *Those drafting legislation should be cognisant of the fact that one of the main reasons people join credit unions is because of the sense of ownership and control over their financial affairs that they enjoy whilst members of the movement. This is a benefit of credit union membership that must be retained at all costs.*

On the flip side, regulation will likely come with implementation costs for individual unions, which may erode competitiveness and create a further drive towards consolidation. This would be harmful to consumer interests and general competitiveness in the financial sector as excessive consolidation would lead to many consumers, as members, not being able to access credit union services at a time and place convenient to them. CUDA member credit unions are well prepared for this having already developed a specific shared IT Platform developed to help them with this challenge. The Credit Union Support Platform [CUSP] is designed to support credit unions in many aspects of their business. One area of significant help is the regulatory compliance feature, where all legislation effecting credit unions was translated into policies which are all standardised. It then has a set of self assessments, enabling management and staff ensure they are acting in accordance with requirements, while helping the board of directors monitor their regulatory compliance status. This is an extremely cost effective manner for credit unions to keep policies and actions up to date in this dynamic environment. The platform demonstrates that CUDA is well ahead in ensuring that its members are compliant in terms of regulation, governance, internal audit etc.

For regulation of the sector to be beneficial and of an appropriate degree, it should be flexible enough to take into account the great divergence within the movement, with each credit union nevertheless able to serve its members' needs within the framework of its chosen risk appetite. Overly prescriptive regulation will stifle the ability of credit unions to meet ever changing member needs across different locations and demographic groups. Any new regulation of credit unions must also not be so strict as to preclude the already financially marginalised from a battered and bruised banking system. The effect of this would of course be detrimental to society and in complete opposition to the principles of credit unions as both economic and social enterprises.

Now is the time for credit unions to take the reins and shape their future together. Hopefully, after all is said and done, we will be left with a credit union system in Ireland that is instantly recognisable but different at the same time.

* *The Commission submitted an interim report to the Minister for Finance in September 2011 and will deliver its final report by March 2012. The Commission will not see any legislative changes during its lifetime, but the transparent and inclusive work carried out by the Commission may ensure that there is less discord when it comes to agreement on key definitions to be contained within any future legal framework.*

The impact of regulatory reform on Irish credit unions following the global financial crisis

Selina Gilleece

Introduction

The global financial services industry has suffered catastrophic failure over the past two years. The impact of that failure is currently being felt across the world and in particular in Ireland as we lead the race to the bottom in relation to the number of scandals within the financial industry. The lack of ethics at corporate governance level has led to moral outrage amongst the public and has caused serious damage to the financial sector both at home and abroad. What also has become apparent is the absolute failure of the regulators in Europe and the United States to patrol the financial services industry effectively. In Ireland, the Central Bank and later the Irish Financial Regulatory Authority (subsequently the Financial Regulator) neither anticipated nor reacted appropriately in the regulation of the industry.

Irish and international regulatory backdrop

It is inevitable that the governance environment for the industry will be much changed both in Ireland and abroad. The European Commission has already responded to the current crises by introducing a number of new steps to address problems within the industry. Many of the proposals deal with the systemic risks at macro level. A new and important phenomenon has emerged that is symptomatic of global technological development that may mean that all markets may move in the same direction at the same time. The hypothesis that then evolves is that the reaction of regulators to those movements should be the same.

The development of a European if not a global approach to regulation is inevitable. The one size fits all answer raises a number of concerns. Issues such as the capacity of smaller financial institutions like credit unions to compete in a globally regulated marketplace must be addressed. The culture of individuals and their countries must also be taken into consideration. The impact of centralisation of regulatory power and how it is controlled must be looked at, including the influence that large developed countries would have in setting the regulatory agenda. The strong influence of Germany and France in setting the regulatory and indeed legislative agendas in Europe in recent months in an attempt to rescue the Euro currency provides clear evidence of the capacity of the strong to dictate to the weak.

It could be argued that global regulation might reduce exposure to systemic financial risk in the financial industry. However, the protection of the consumer at micro level is still the responsibility of each individual state whose government has a constitutional duty to protect its own citizens. It is a leap of faith to imagine that at any time in the foreseeable future a global regulatory institution could in any way mirror those responsibilities at macro level. It would appear that for the Irish consumer, for now at least, the onus will be on the developing systems at European level which are increasingly tending towards the single financial regulator model. As Mr. David Went, former Chairman of Irish Life and Permanent and Chairman of the Financial Services Consumer Industry Panel, stated:

> *"There will be much less opportunity for regulation to be different and regulatory arbitrage is going to become a thing of the past…. from now on it is going to be an international agenda rather than an Irish agenda".*[1]

The struggles of Irish credit unions

It is against this ominous backdrop and fiscal uncertainty that we find Irish credit unions. The Irish credit union model has managed to successfully develop over the past 50 years with little interference from European macro regulation and with positive advocacy internally from consecutive Irish Governments. The landscape is, however, changing and credit unions will struggle to keep afloat as the pace of regulatory reform quickens. Irish credit unions have developed far beyond the basic co-operative model designed to meet the financial needs of the financially excluded. The range of services and products provided by many credit unions, while testament to the foresight and hard work of its volunteers, moves credit unions ever closer to being identified as mainstream financial service providers and with that recognition comes all of the baggage that is attached to being a financial institution albeit a voluntary not for profit one. Already in Ireland over the past 18 months we have seen credit unions fall under the definition of 'credit institutions'.

In the midst of the current economic debacle, credit unions have so far remained relatively unblemished. Credit union members continue to be extremely loyal and, public confidence is still positive. To date, no credit union has been declared insolvent and no member has suffered a loss in a credit union. Whether or not this continues remains to be seen. The reality of the economic crises is impacting and credit unions are bending under the weight of substantial increases in arrears, negative loan growth, losses on investments, high liquidity requirements limiting the capacity to earn returns, increased regulatory provisioning, escalating costs and reduced overall income. In the midst of this storm, massive developments are taking place in how all financial service providers will be regulated into the future and credit unions can expect to be considerably impacted by those changes.

Central Bank Reform Act 2010

The Central Bank Reform Act 2010 implements government strategy on introducing financial regulatory reform. Two new key high level posts have been established: the Head of Financial Regulation and the Head of Central Banking. The position of Registrar of Credit Unions sits somewhere within this overall structure. The Registrar will not report directly to the Head of Financial Regulation. This is significant for credit unions in that their regulator must be able to hold their own within the overall regulatory structure to ensure that credit unions are understood as being separate and different from profit making financial institutions, and who can advocate appropriate and proportionate regulation for them. There is an inherent danger that the regulation of credit unions is subsumed into the new overall Central Bank structure.

The Act also strengthens the Bank's and the Governor's independence in their functions under ECSB statute and the Treaty of Rome. It is important to note that the Central Bank Reform Act 2010 amends Section 35 of the Credit Union Act 2007 (as amended). The argument put forward to rationalise the need to include the amendment is that it gives credit unions a greater degree of flexibility in facilitating restructuring loan agreements. Whilst flexibility on restructuring is facilitated, the amendment also gives considerable additional powers to the Financial Regulator in regulating credit unions and specifically refers to requirements which could be imposed in relation to lending practices, systems, controls, provisions, reserves and capital. *The irony of including an amendment that is specific to credit unions in an Act that is designed to reform Irish regulatory structures should not be overlooked or downplayed, nor should the fact that the amendments provide to the regulator a huge increase in regulatory powers.* It is worth stating that the Act was effectively introduced with no consultation with credit unions and with no analysis as to the impact of the legislative change. This type of regulatory reform introduced through legislation brings credit unions into new unchartered waters. The Central Bank (Supervision and Enforcement) Bill 2011 will further consolidate Central Bank legislation, and will impact further on credit unions.

Consumer Credit Directive 2008

In a further unanticipated strike against credit unions, the Department of Finance in May 2010 announced that they would grant a discretion for credit unions regarding the transposition of the Consumer Credit Directive for a period of only 18 months following which the full regime will be imposed. This is despite the fact that the discretion was negotiated at European level specifically for credit unions and that in the UK it has been decided by government to completely exempt credit unions from the directive. The introduction of the directive (with the discretion) for Irish credit unions has resulted in some operational changes. The implementation of the full directive in December 2011 will have a considerable impact on how credit unions do their business. Article 8, which deals with creditworthiness, is of particular concern and may adversely prohibit credit unions from providing small loans to those who most need access to credit.

It seems obvious that the strategy of the government and the Department of Finance is to withdraw their support for and promotion of the financial services industry and to allow the regulator to focus on prudential regulation without distraction. That withdrawal includes what could be argued was hitherto benevolent support of credit unions.

Credit Union Commission 2011-2012

As discussed elsewhere in this edition of the journal, the Irish Minister for Finance has set up a Credit Union Commission to *"review the future of the credit* *union movement and make recommendations in relation to the most effective regulatory structure for credit unions, taking into account their not for profit mandate, their volunteer ethos and community focus, while paying due regard to the need to fully protect depositors savings and financial stability".*[2]

The Commission comprises a number of experts from the sector although interestingly there is no volunteer representation. It has consulted with credit unions through a submission process. The final report of the Commission is due on 31st March 2012, although events may overtake the work that it is doing. The Euro is in crisis and may not survive into 2012. Meanwhile legislation affecting credit unions continues to be introduced.

It is clear from the Interim Report of the Commission on Credit Unions that the sacred cows of the Irish credit union movement will be called into question. The survival of the Irish League of Credit Unions' Savings Protection Scheme, a fund owned by credit unions and administered by the ILCU will be severely tested as pressure is exerted to set up a statutory stabilization fund, paid for by credit unions but controlled and governed by the Central Bank. It is difficult to argue against the establishment of a robust, appropriately regulated, adequately funded structure that is independent of the representative organizations. It does mean, however, that control will lie wholly within the Central Bank in determining the use of the fund for the individual viability or sustainability of credit unions in difficulty.

The Central Bank has been empowered in the meanwhile to establish a 'Special Resolutions Unit' which will be charged with overseeing the orderly failure of financial institutions. The scope of this legislation includes the setting up of a resolution fund and the power to establish a bridge bank, for the purposes of holding assets or liabilities transferred from a distressed institution. Individual credit unions that are struggling with solvency issues, arrears and investment losses are clearly in the sights of the Central Bank in regard to this new resolution regime:

> *"The Central Bank has for some months been preparing for the new regime. Now that it has arrived there is an immediate need to focus on certain credit unions"*[3]
>
> Jonathan McMahon – Central Bank

The Commission also recommends the commencement of Part lll of the Central Bank Reform Act 2011 which will see the introduction of fitness and probity standards. It will be crucial to ensure that there is consultation in order to ensure that the work of volunteer is recognised and to avoid an exodus of volunteers from the sector. Credit union managers will also find themselves in the regulatory spotlight as professional standards will be imposed and managers may be required to apply for approval from the Central Bank to hold controlled functions.

Future prospects

The level and force of change is difficult to gauge. The Central Bank is currently examining the introduction of limits for all financial institutions in consumer lending. The credit union registrar has already introduced lending limits in some credit unions and may take further action when he has completed further stress analysis. The capacity of Irish credit unions to operate in this new highly regulated environment has yet to be determined. Credit unions are by their nature robust and adaptable. However, they were not designed to operate within the confines of tough constrictive bank based rules.

The fact is that the financial services industry has failed the consumer. Banking culture, with its emphasis on rewarding the shareholder and the drive to increase profits at any cost, has resulted in a detrimental loss of trust between governments and financial institutions. The opportunity to embrace and work within a principles based system has been lost through abuse and there is now a global push towards rules based systems. Credit unions operate optimally in a principles based system. The real threat is that their co-operative ethos, their inherent transparency, simplicity, fairness, accountability and access may not be enough to endure them through the difficult times ahead.

Conclusion

The problem for credit unions is that they are part of the financial services industry whether they like it or not, and what is happening within the industry is impacting on them. In these unchartered waters, credit unions will need to collectively and co-operatively focus their energy and commitment, devise a strategy for their survival and development and communicate clearly and unambiguously to government and the public the credit union difference, the importance of the member and the intrinsic value of Irish credit unions to Irish community into the future.

Co-operatives Year 2012. No time for celebration but maybe the last chance to mobilise the movement for action on the globalisation crisis.

Peter Davis

The reality of globalisation

Globalisation driven by liberalisation of the financial markets, privatisation of most public utilities and widespread demutualisation has created a chaotic and under regulated economic order. The lack of governmental regulation of financial and other economic institutions governing conglomerates in the core banking, manufacturing, mineral extraction, logistics, IT and service sectors has exacerbated what until recently has been a gradual build-up of a multiple set of crises driven by industrialisation and consumerism managed by the principles of 'scientific' management. The crises of climate change, pollution, resource depletion, environmental degradation and species depletion are made all the more desperate by the demographic pressures on the worlds' population. But let me be clear from the beginning it's not too many people that's the problem it's a totally inappropriate economic and business model that seeks continuous growth financed by credit that is threatening to destroy our natural environment and generate mass starvation and war if it's not checked quickly. In this dark reality the co-operative movement shines all the brighter as a beacon for economic justice, sustainability and community within civil societies across the world. But this is no time for self-satisfaction and celebration we need to be brutally honest about the movements weaknesses and even its failures if the co-operatives are to really have a chance to fulfil their potential and help re-configure the world economy to ensure greater equality of opportunity and lifestyle through a redistribution of wealth within a low to zero growth model. The latter is necessary to conserve resources and protect habitats and endangered species.

Resources depletion and environmental degradation

The finite resources of this planet cannot sustain a rate of growth set by China fuelled by western corporate investment. The speculation in housing has now turned to food and there will be starvation if this speculation is not halted. As Shell and other oil companies experiment with bio-fuels already half the world's population experiences hunger as the normality. For every Indian middle class family to have a motor car and every middle class Chinese family to have a motor car their cars will almost certainly have to be fuelled by bio fuels. Starvation for the poorest will follow.

The supply of metals essential for much of the high tech consumption goods like mobile phones is not keeping up with demand. The Chinese and other manufacturers are beginning to stock-pile and hoard scarce minerals. The opportunity to speculate in the context of expected price inflation for food and other raw materials essential for life is growing daily. Our planet is finite and so therefore is the real economy. The West started this high tech driven individualism and consumerism and we must take the lead in reversing and replacing it. We must learn to consume less and conserve more in order that others may learn to follow our lead and give everyone on this planet the chance for a decent life.

Pollution in the atmosphere and the accumulation of waste is getting to dangerous levels. Ozone depletion causing skin cancers, cites chocked with motor cars causing respiratory problems to increase, acid levels in the seas reaching dangerous levels and a "trash vortex" (six kilos of plastic for every one kilo of plankton) the size of Texas swirling around in the Pacific Ocean are just some of the consequences of our unsustainable lifestyle.

The melting ice caps, shrinking rainforests and a wilderness threatened by mineral companies all desperate in their pursuit of raw materials to fuel this destructive and inhuman economic model means that many animal and plant species are already extinct or are threatened with extinction. In the West, Japan, India and China industrialists are in a race to the bottom in the pursuit of raw materials, energy and particularly rare earth metals. But we consumers must recognise our role in furnishing the demand for the products they produce. Shopping needs to be an occasional not a daily activity. We need to restore, recycle and repair more. We need to find new uses for 'waste' materials. These activities should not be seen as some new austerity measure but as opportunities for the development of skills and creativity. We need to start to see that doing is more fun than consuming. We need to increase the value added in the domestic economy. By domestic economy I mean those productive activities undertaken in the home and family and / or community context which could or has been commercialised as either goods or services provided in the money economy. The more we do this as individuals the more we increase our personal contribution to reducing the global strain on the environment and reducing demand for those goods and services that are currently using up resources and /or creating waste. More local production of food and other products and green energy are further ways to reduce the logistics costs that global industrial concentration and centralisation are producing.

The political and welfare crisis

The real lesson of the banking crisis is not that business management is corrupt and lacking prudence, responsibility, and compassion for those it harms, *although that is one of the lessons*. It is not the lesson that the economic model that facilitated the greed driven speculation and outright fraud based upon credit led growth in consumption is unsustainable, *although again that too is one important lesson arising from the crisis*. The most sobering lesson arising from this crisis however is that the role of the state has changed. *Government no longer regulates capitalism it is now collaborating with it.* From left wing academics like C. Wright Mills the sociologist to Republicans like President Eisenhower people have for a long time now been aware of the malign influence upon the State of the Military and Industrial Core Economy. Today the state has printed money and supported failed Banking businesses. This may have been the right thing to do to avoid further dislocation and economic collapse. *But what was not the right thing to do was to then proceed to make the poor and the tax-paying middle classes pay the bill.* No banker or audit company has been made to account for the negligence and fraud that created this crisis. Banks are not being made to pay back the debt that the state has acquired in order to save the economy from their reckless abuses. Whether it is Bush or Obama in the White House it remains business as usual for the bankers.

Asian and Western countries are now spending around the same percentage of their GDPs on arms yet we find little health care, squalid housing and not much education for the poor over age eleven in Asia or Africa. In the West there are cuts in services across the board in many European and North American countries, including those for the disabled – our most vulnerable sector of the population. There are cuts in benefits and a call to end the ‘dependency culture’ from the right wing, and centre right parties that now monopolise power. At the same time their policies create unemployment and underemployment at a global rate that stands around 30% of the world’s working population. Technology replaces labour in all the sectors of the economy. In the UK our under-twenty five unemployment rate stands around one in four and a similar scale of human waste amongst the younger generation is duplicated in most of the economies of the world today.

The duplicity of the State in this crisis needs to be recognised in the light of the history of the campaign to show that smoking caused lung cancer. Decades went by without any action being taken whilst the tobacco industry found tame academics to muddy the waters and spread confusion about the nature of the science on this topic. When the game was finally up in the West the tobacco companies simply took their product of death and marketed it hard to third world countries where governments were less responsive to pressures from civil society. Today big business interests are trying to do the same with the climate change issue. *The state is totally reluctant to regulate because it is a partner to the very interests that need regulation. The interconnectedness of big business with political office is perhaps most obviously demonstrated by the Bush family’s occupation of the Presidency of the United States twice in recent times.* But whoever holds office in the USA they cannot do so without the endorsement and funding of big business. Increasingly this is true in the UK and elsewhere. In China the facilitation of big business by the state is clearly evidenced. Capitalism can thrive in a finance plutocracy like America or a totalitarian dictatorship like China. It takes a genuine Social Democratic State where there is a Civil Society capable of the mobilisation of an independent labour movement for the issues of welfare economics to gain any credible policy initiative. The United Kingdom has a civil society generated political institution, almost unique in the world, which potentially could redirect the state to the issues of regulating capitalism and the market economy in favour of a sustainable environment and social justice. To achieve this however the "Blairite Tendency" needs to be purged from the party of labour, co-operators and trade unionists if the electorate are to have a real opposition and a real alternative. The planet and its people need "Attlee's" not "Thatcher's".

Big corporations see climate change not as a threat but as a business opportunity to sell artificial intelligence and genetically modified crops and animals as the only solution to the problems they have created. Ever since Malthus and Ricardo debated the issue of finite land and rising population capitalism has put its faith in technological solutions to solve its problems. These solutions have not been based on human welfare (beyond the theories posited in some economics text books). “Death pays a Dividend” was the title of a book in the interwar years by Fenner Brockway on the arms industry. Today is no different. The civil disorder that mass starvation will bring will be the excuse for the use of artificial intelligence based machines and surveillance to restore order. The opportunity to use genetic engineering to modify crops will become universal and extended to animals and maybe to us. Cities with totally computer controlled environments have been a possibility for at least thirty years. They represent huge *capital* projects – but then that's what the credit system is there to facilitate. This looks increasingly like the future brave new world. Is it one most of us will want to live in?

Our humanity is threatened by these developments for we are creatures who are part of creation. Our souls cry out for a wilderness that is protected; we want our children to be able to see whales, polar bears, elephants, tigers, etc. in the wild. We do not want to live out our lives (the lucky ones that is) in a managed environment in "Honda City" while a climate not able to sustain us prevails outside wrecked by technology not saved by it. This could be our last chance to avert the coming catastrophe as time is not on our side. We need a major change in values, life styles, and business models. Our western and eastern political elites are incapable of providing the necessary leadership and policy direction. We must find an alternative to the political impasse at the top. *A further important lesson of the financial service crisis, therefore, is that Civil Society must be mobilised.* This has been done in the past and can be done today through co-operative associations of people in communities where labour is seen as the main factor in production and services. We must aim to produce locally in a sustainable manner using natural processes that work with nature rather than against it. In those societies where there remains sufficient freedom we the people must do it for ourselves and we must do it now. What we learn in the process we must pass on to others. As soon as we start the process we will be encouraged to learn of the many millions of local initiatives already under way.

The crisis in the co-operative movement

The Co-operatives are the obvious business model to facilitate the dramatic lifestyle and economic changes we need to make. The movement has enormous potential for dissemination and facilitation of sustainable alternative businesses and lifestyles but it also faces challenges within and without that should not be 'brushed under the carpet' but rather need to be faced up to and explored. Can the movement today sustain such a radical agenda? Certainly not many will bet on it. It does have the potential. It does have excellent examples of good practise that could become models for development away from high consumption economics. However, much of the movement is in the hands of people who appear to be bent on maintaining its low profile and marginal appearance. In the economically successful sectors there is often a very poor engagement of rank and file members. The main barrier is the management and leadership. There is a total failure by the big co-operatives to lead or for the ICA and other federals to think strategically, to link up with NGOs with the expertise to advise and to set up technical working parties to daw up the agenda for change. The ICA Global Human Resource Development Committee operates with a minuscule budget. The failure of mobilisation and engagement of its members is not the movement's only problem. The silo's that exist between sectors and within sectors between big and small co-operatives mean that co-operation between co-operatives is impossible to realise. Yet this is a key requirement if an alternative economy is to be developed within the co-operative sector. This is unlikely without a major change in management and leadership values and vision.

Those familiar with my publications and conference papers over many years will not be surprised to read that I see these issues as mainly the result of having a professional management schooled in the disciplines of retailing, banking, insurance etc. without any understanding or personal commitment to co-operative values and the movement's broader social agenda and purpose. I have called for and today I am pleased to say more and more the call is heeded that we need to develop a model of co-operative value based management education. But there is, given the bigger picture, a problem with this solution, *this is the question of time.* The project of global co-operative management and organisational development and the project of dissemination of the co-operative model are highly problematic given the handful of Management Schools with the personnel knowledgeable and committed to such a task. If one is honest the internal momentum within the movement is also hard to feel confident about. In many parts of the world the movement is caught in the grips of an entrenched bureaucracy which remains in power despite a clearly rising level of unease amongst the active lay membership together with an increasing interest from the academic community. The low level of understanding and engagement by the members in existing co-operatives worldwide shows that we need to put more resources into modern management methodologies for mobilising our member's viewpoints and for educating those viewpoints. There needs to be a massive injection of resources into member education on climate change. This requires a collaborative common approach by the whole movement to educate members that change is coming and soon, the only question is how and in what direction? But where in the management decision making systems within the co-operative movement is there the will to do this?

The international co-operative movement must become the catalyst for unity for change not a battle ground for sectarianism

If the co-operative movement does not act as the catalyst for a radical change in economic model who can or will? We need sector conferences in each region, in which the ICA invites other organisations to contribute to discuss the crisis both on how reforming the economy will impact on the various co-operative sectors and also in general on employment and employment creation and on ensuring access to resources for human well-being are distributed fairly. *This will be the critical factor for establishing a credible alternative economic model.* In this consultation and strategic development I urge the movement not to ignore the oldest and biggest NGO in the world – the Roman Catholic Church. It remains a huge resource for the mobilisation of people at the global level. Its Social Doctrine is completely at one with the Co-operative Identity and addresses men and women of goodwill in all faiths and none. We must all try to overlook differences for, as important as some of these are, none of them will be resolved if the current crisis of a deregulated globalisation is not confronted and a new sustainable economic model developed and implemented.

One thing I noticed about the four case studies of co-operative success discussed in one of the books I have reviewed for this issue if the IJCM (See *Capital and the Debt Trap. Learning from Co-operatives in the Global Crisis* ISBN 978-0-230-25238-7 · Claudia Sanchez Bajo and Bruno Roelants) is that they were *all drawn from one common background*. They are all from countries with a Roman Catholic heritage. Not that there are not important co-operative success stories in other belief communities – there are – but the Catholic Church does have the most developed Social Doctrine of any faith group and the Church has for over a century promoted the co-operative business model. I cannot think of any other non-co-operative NGO that has consistently and universally championed co-operatives more than the Roman Catholic Church. Not only is this ignored by the authors of the above book but even when the founder of the Mondragon Co-operatives is named his priestly title is not mentioned. Of course it's not very fashionable in today's liberal academy to be Roman Catholic. I was told recently by one Canadian academic that to have all male Bishops was a breach of her human rights. Well I beg to differ. If we really believe in diversity and difference that must *include* Catholic congregations as well as Protestants, Hindus, Muslim and Jewish ones where in some of these communities of belief for theological reasons such practices as male only priesthoods exist. These communities of belief are entitled to their beliefs. If a woman is forced to remain in that community against her will then her human rights are breached. Also if she chooses to remain and campaign for change and is suppressed, again her human rights are breached, but not otherwise. Communities of belief should not be obliterated in terms of their fundamental religious values and doctrines simply because it offends the secular feminism and liberal consensus. Diversity requires recognition and tolerance of various communities of belief and practice.

The Roman Catholic Church remains the largest global NGO on the planet. Its stand on Co-operatives and its millions of lay activists and business men and women are a huge potential source of value based leaders. No Catholic, understanding Catholic Social Doctrine, would for a moment oppose women's equality in the context of co-operatives and within other political economies and civil society at large. Indeed many, possibly the majority of these activists, are women. In addition to the Catholic Church there are around three thousand Global NGOs many, perhaps most, of which are opposed to the Casino Capitalism of today. The co-operative movement may be the right business model but it needs more people with the leadership qualities, values and vision to engage and mobilise its co-operative values, institutions and members. *These organisation's activists, Catholic and Secular, must engage with each other in the areas where there is common ground.* Then the institutions leading three quarters of a billion Co-operators and 1.2 billion Catholics may be able to rouse their members before it's too late.

They will be greatly helped in this if a further connection can be made to link up with the scientific and technical resources of those NGO networks working with the scientific community. There are networks in the scientific communities concerned to establish a socially responsible science that supports sustainability and human development rather than deskilling and dependency. The scientists need to establish a popular outlet for their concerns. We *all* need a creation and people centred science that ensures human development and a sustainable natural environment where we live as part of nature not *apart* from nature.

The Co-operative Year 2012 – a time for sober reflection and action

The movement as a whole needs to reflect on its role in replacing the credit led growth focused individualism and consumerism in the Western economic model. The resources are available. So are the global communications systems. So too I believe are the men and women with the right values to lead the Co-operative Economy and mobilise Civil Society. Can we 'join up the dots'? Can we make it happen before it is too late? Can we come out from behind the security of our own version of 'political correctness' (religious and secular) and unite to save our planet and our common humanity. The year 2012 is the year in which we need to face up to the institutional and ideological barriers within the Co-operative Movement and start co-operating with each other and with like-minded people of goodwill in the many NGOs that are all providing important but individually partial solutions to the global multi-layered crisis that faces us all. *Co-operatives are people centred businesses yes but can they work together with other men and women of goodwill both religious and secular to ensure a creation-centred economy whilst there is time?*

Towards the future: Ireland's credit unions in the 21st Century

John Knox

Introduction to the research

The Irish League of Credit Unions is currently implementing an Information Communications' Technology (ICT) Strategy, a key component of which is to enable the provision of new services for members such as electronic funds transfer, card services etc. It is, however, always difficult to estimate the level of take up of new services. It was therefore felt that there was a need for insight into members' and non members' views of current credit union services and their willingness to use future services if they were provided.

In an effort to address this issue, the ILCU commissioned Amárach Research to undertake a survey of 1,200 adults throughout the island of Ireland in March 2009 which included members and non-members of credit unions. A hybrid of face to face and telephone interviewing was undertaken amongst adults aged 18+ in both the Republic of Ireland and the Northern Ireland. Quotas were set in terms of age, gender and socio-economic grading to ensure a nationally representative sample of the population.

The main findings of the survey clearly illustrated that members (and non members)

- trust credit unions
- recognise the important role they play in communities
- are aware of and appreciate the support credit unions provide to people struggling financially
- understand that members' best interests are at the heart of everything credit unions do and
- are open to new product and service innovations

Research into members' and non members' views of credit union services

The survey examined the attitudes of members and non-members towards credit unions as both financial institutions and as organisations that play a distinctive role in their local communities. There is a clear recognition that credit unions operate in a very different way to, say, banks when it comes to the services they provide. Take, for example, responses to the statement that 'credit unions provide needed support to those who are struggling financially'. At a time when trust in banks has plummeted, the majority of people agree with this statement.

The communal role of credit unions is highlighted by responses to the statement that 'The Credit Union is an important part of my local community'. A majority of members and non-members agree strongly with this statement. What does it mean to be a member of a credit union? One way of gauging this is to ask members and non-members about the perceptions of credit unions – in other words, its image. For example, 62% of members agree that the credit union 'treats you as a valued customer'. An even higher proportion – 69% – of members agrees that the credit union is 'an organization they can trust'. Indeed, the proportion of adults believing these labels apply to credit unions is higher than the proportion agreeing they apply to any other financial institution. The highest scoring attribute for credit unions is as 'an organisation that supports the community'. Some 59% of adults agree with this, more than twice the proportion agreeing that it applies to Ireland's two largest banks: AIB and Bank of Ireland.

Credit union members also expressed extraordinarily high levels of customer satisfaction with their credit unions. It is no coincidence that these high levels of satisfaction were driven by aspects of operation credit unions would pride themselves such as friendly staff and the ease of obtaining a loan. The danger with doing such a great job is that credit unions can become complacent. Too many excellent organizations and businesses have succumbed to a sense of 'everything is grand' only to find their members and customers voting with their feet and going elsewhere. One response to this dilemma – the only sustainable one – is to be aware of the changing needs and expectations of members and customers, and to develop new services alongside existing ones that meet emerging needs.

There is a significant appetite for using credit unions for more than just saving and borrowing. What is especially encouraging from the survey findings for credit unions is that it indicates that members are open to new products and service innovations that meet members' needs. A large proportion of the Irish population agree that they 'would like to use the credit union for more of my financial needs', rising from 41% in Northern Ireland to 58% in the Republic of Ireland. *Moreover, the high level of interest amongst non-members points to strong recruitment possibilities for credit unions to establish an even stronger presence in hundreds of communities throughout Ireland.*

Discussion of findings

The results from this survey validate the proposition of credit unions providing an alternative to the for-profit financial institutions. The survey findings also indicate that the Information Communications' Technology (ICT) Strategy is vital to this process as it will address the technology needs of credit unions in meeting the growing needs of members.

In light of the findings from this survey Amárach Research recommends that credit unions in Ireland acknowledge their vital role in their members' communities and heed the requests of the public to offer a wider range of products and services thereby offering a real alternative to traditional financial institutions, towards which there is undoubtedly significant disillusionment and resentment. It is also clear that the ICT strategy, by providing efficiency and cost saving benefits, will be a cornerstone in aiding credit unions to come together to as a movement to deliver additional products and services to members.

This timely piece of research showed the vital role of credit unions in their members' communities. It has also shown that – despite the cynicism and distrust engendered by numerous banking scandals, the Irish people have a deep trust in their credit unions. Most importantly, the research has shown that credit unions deliver an excellent standard of service.

Together, these findings bode extremely well for the future of credit unions in Ireland, a future that will demand even more of credit unions in response to a deepening recession and the challenge of recovery, and a future that will be responsive to initiatives by credit unions to meet a wider range of members' changing needs in the 21st century.

What is especially encouraging from these findings is that they show that members are open to new product and service innovations that meet real needs and enhance already high levels of customer satisfaction. Moreover, the high level of interest amongst non-members point to a strong recruitment channel for credit unions to establish an even stronger foothold in hundreds of communities throughout Ireland. In light of the research, the ILCU ICT strategy's objective of supporting the implementation of new products and services will play a key role in aiding credit unions to come together to collectively deliver solutions to members.

CUNA Mutual research into opinions on the future of Irish credit unions: a brief report

Paul J Walsh

Introduction to the research

In 2010, prior to the commencement of a structured review of the Irish credit union movement by the Irish state, CUNA Mutual conducted research for and with Irish credit unions which explored their future in the context of historical, current and future challenges facing the movement. Eighty surveys were mailed to credit unions with a response rate of 59% (47 respondents). Survey respondents held one of the three key leadership roles: manager (85%), chairman (12%) or treasurer (3%). The credit unions represented varied in size. Likert scales from 1 to 5 were used to measure opinions, where 1 represented strong disagreement and 5 represented strong agreement with various statements.

Opinions on the future of the Irish credit union sector

Respondents' opinions on a range of statements, examining short, mid and long range views of the sector are summarised in Chart 1. In general, respondents' opinions on the future were positive with some notable exceptions regarding the recruitment of future directors and volunteers for the sector.

1. Mid range (5 year) outlook

The sector will grow

There was uncertainty around the sector's ability to grow in the mid-term, resulting in an aggregate score of 3.5 out of 5. Both mid and large credit unions were slightly more positively disposed to growth (3.6) compared with their smaller peers (3.1).

Consolidation

There was strong support for the statement forecasting a large number of credit union consolidations in the mid-term (4.1). Interestingly, when cross tabulated with respondents indicating that their board would consider merger in the future, there was less favourable support. This appears to indicate that although respondents see mergers occurring, they feel it will happen to other credit unions and not to their entity.

2. Long range (10 year) outlook

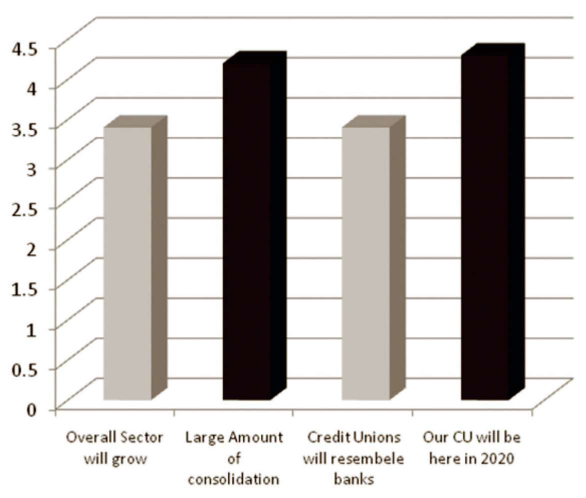
Credit Unions will resemble banks

There was no clear consensus of opinion on this topic (3.3), although smaller credit unions did express stronger reservations on the matter (3.6), fearing some degree of convergence.

Our credit union will be here in 2020

Respondents were universally optimistic around their chances of survival (4.4) over the next 10 years. Yet, when these respondents were cross tabulated with those expecting mergers to occur, 90% were similar, indicating that they would be the credit union acquiring another.

Chart 1. Opinions on the Future of the Credit Union Sector. 5 & 10 Year Horizon.

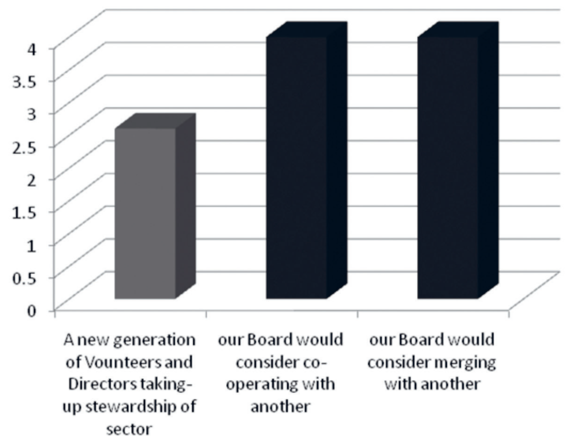


- 9 out of 10 foresee large amount of consolidation
- 9 out of 10 predict that their CU will be around in 10 years time

3. New generation of directors and volunteers

Worryingly for the sector, as shown in Chart 2, was the view that a new generation of directors and volunteers were not taking up stewardship of the sector (2.5). Negative views were expressed across all sizes and geographic locations of credit unions. The ageing of directors in Irish credit unions was a factor observed by Byrne, McCarthy and Ward (2007) and it appears that progress has been difficult in this area.

Chart 2. Opinions on the Future: Volunteers, Co-operation & Mergers



- 9 in every 10 said their Board would consider co-operation with another CU
- 8 in 10, who expressed an opinion, said their Board would merge with another if needed
- Big challenge with only 6 in 10 indicating that a new generation of Directors and Volunteers are taking-up stewardship of the sector

4. Board outlook and operating synergies

Two key statements relating to possible strategies that may be implemented by the credit union board were presented, relating to co-operation and merger with another credit union. Given the relative importance of both these actions to achieving economies of scale (Wharton Business School, 2008) their acceptance with Irish boards was tested.

Co-operation with another credit union

There was a strong response to this statement with the majority of respondents expressing agreement with this course of action (4.1).

Merger with another credit union

Although this statement met with broad support, there were a high number of non-responses.

Conclusion

Irish credit unions are competing in a mature market sector and economic life-stage of credit union evolution. However, they are operating with a development stage governance model. As a consequence, governance and the role of boards within credit unions could be greatly impacted in any future operational model review. To maintain their relative level of competitiveness in the Irish financial sector, credit unions will need to leverage operational scale and scope. This may lead to greater shared services models, mergers and or acquisitions.

To attract a new generation of leaders, credit unions will need to aggressively promote their brand differentiation. There has never been a better opportunity for such a strategy. We live in a marketing led business environment where the consumer has a high awareness of brands and where 'brand equity' is critical for commercial success.

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The Origins, Ethos and Evolution of Co-operative Credit in Ireland. Celebrating the Centenary of the birth of Nora Herlihy

ISBN978-1-906642-28-0 · *Edited by Carol Power, Ray O' Connor, Olive McCarthy and Michael Ward*

Excluding the introduction and Conclusion written by Carol Power this book is made up of some twenty eight chapters with contributions from twenty authorities. All with the exception of Prof Ian MacPherson I believe hail from the island of Ireland. It represents therefore a remarkable collaborative effort of Irish scholarship concerned with popular savings and credit movements and in particular the emergence and remarkable success of the Irish Credit Unions. Its celebration of the mother of the Irish credit union movement should not mislead. There are some excellent recollections and celebratory moments in her life and a touching personal recollection by Prof MacPherson but the whole work is embedded in the social, cultural, religious, economic and political life of the Irish people in their struggle for a better life.

There are three excellent foundational chapters; one by Ella Kavanagh on the history of accessing saving and credit in Ireland and two by Eoin McLaughlin on the Post Office Savings Bank and Loan Fund Societies in Ireland. In the second section the history takes us from the Co-operative Credit Societies to the Modern Credit Unions. There is a range of factors brought into focus in this section with contributions in five chapters by Ray O' Connor. Ray has some excellent analysis on Horace Plunkett and the Agricultural Co-operatives in developing credit for the rural poor and the poor farmer. Ray ranges over the impact and contribution of the Catholic Church in this history from the positive support from its leadership to some less than enthusiastic responses from some of its local priests. Ray's Chapter on the role of adult education and the chapter by Carmel Motherway on the Evening Press are also an interesting record of two important moments in the developing civil society in Ireland as well as the credit unions. Olive McCarthy closes the section with a review of the Church's influence in the founding of Ballyphehane Credit Union close to the city of Cork. Its significance as a role model to be copied is clear. Olive makes very clear the important role Nora Herlihy played in providing support and practical advice together with the leadership and vision of Bishop Lucey and the church in giving birth to the Irish Credit Union Movement.

Before I leave this section however I want to give a special recommendation to readers interested in the co-operative and credit co-operative movements as *contested terrain* where at critical moments wrong choices were made and false ideological positions adopted to read the late Vincent Tucker's chapter on Ireland and the origins of the co-operative movement. Tucker focuses on William Thompson, the aristocratic advocate of co-operative socialism, feminism and vegetarianism. Thompsons name appears usually in connection with the Labour Economists of his day particularly Thomas Hogskin and John Francis Bray. Thompson's recognition of the complimentary role of trade unions and credit societies of his day, his emphasis on incremental capital accumulation and bottom up not top down organisation has a contemporary relevance to our modern crisis. But Thompson was not alone. Thomas Hodgskin in *Labour Defended* gave the first warning of how later management in the scientific management movement would add to the exploitation and expropriation of work from the worker through management and the machine in what has become known as the *labour process*. Hodgkin too was a pioneer in founding the Mechanics Institutes.

Tucker demonstrates in the case of the Ralahine Community just how important ultimately ownership of the land is for community based projects. This is a good time for Tucker to remind us all of the pioneering goals of the early co-operative movement

1. The acquisition of common capital not just personal wealth
2. Social Security and Anti-Poverty Programmes
3. Improved living standards
4. Mental and Moral Development
5. Education

As important a discipline as PEARLS is for financial stability and good governance in a credit union it does not begin to address the real fundamentals of why we focus on soundness in financial management and why we establish the credit union in the first place. It was Robert Owen who taught that the purpose of economics was character formation. Certainly, the Labour Economists like Thompson, Hodgkin and Bray agreed with this even if he disagreed with Owen's methods. There is no doubting the important contribution to the British Labour Movement made by its Welsh, Scottish, and Irish members. (Even the ones who didn't want to be British at all!) Thomas Hodgkin, and William King however were Englishmen who both played a not insignificant role in the development of the British Co-operative Movement. John Francis Bray (the child of English immigrants from Leeds who settled in the USA) was thus an American citizen who returned home to America. Bray was brought up in Leeds and wrote *Labours Wrongs and Labours Remedies* whilst going on the 'tramp' looking for work. This book inspired the Leeds Redemption Society.

The Society took up Brays advocacy for incremental accumulation of capital to establish a fund to generate employment. Bray had left for America by then. Bray had been critical of the economics of a self-sufficient community on the land in an age of industrialisation. This was not understood by the Leeds Redemptionists who collected money in the form of small regular gifts from local people to finance an agriculture based community in Wales. The Redemptionist community was not wound up till 1856 but by then it had lasted longer than any of the top down communities of Owen and the Irish community in Rahaline and was the last British attempt at a communitarian ownership based on incremental accumulation of capital. Its significance is that it shows that the desire for a co-operation that embraced common ownership did not die with the last of the Owenite communities to be replaced by Consumer Co-operation of Rochdale.

This misleading historiography also ignores the flour mill co-partnership established by the Rochdale Pioneers which was economically and socially a great success but was subverted by private investors for lack of legal frame works and the intervention of a manager (JWT Mitchel) who later as CEO of the CWS opposed all profit sharing and established consumer co-operation as an ideological statement against worker co-operation. Thus was lost sight of two critical elements in the co-operative project – first the issue of common ownership of assets for production, employment and welfare and second the reality that incremental accumulation of capital was to be a *means to release the productive power of labour to create value of its own not simply to finance consumption.*

Today unemployment rises, particularly amongst the under twenty-fives. The state has become the collaborator in a huge injustice which has made millions lose their jobs, and elderly, sick and disabled pay the price of the debt transferred from the Banks balance sheets to that of the governments. Today our society is at a crossroads where the welfare state is undermined and labour is in gross oversupply to the demand. We need to reflect on the vision of the past that is our co-operative heritage. We get close to this towards the end of this book. Here the authors provide many examples of credit unions as exemplars of socially responsible businesses supporting local economic and social and cultural development *but not local common ownership*. The Irish movement has offered solidarity at the international level with technical support. But we need to confront more than administrative, management and governance issues. Our global education effort must include more concern for building commitment to confronting issues such as pollution, resource and species depletion, environmental degradation and reducing global inequality.

King advocated retailing not as a superior form of co-operation but as the quickest route to accumulation of funds to purchase land and manufacturing. Bray thought workers could save and buy their factories or establish new ones. Both men had a profound influence and in many ways anticipated Marx. This was almost completely unacknowledged by the latter and, in the case of Bray Marx in his polemic against Proudhon actually distorted Bray ideas. Today as worker co-op buyouts become more and more possible through conversions, Bray's ideas are again increasingly relevant. The movement as whole needs to reflect on its role in replacing the credit led growth focused individualism and consumerism in the Western Economic Model with locally owned sustainable production.

In the chapter by Maura Walsh and its case study of IRD Duhallow we get close to the vision identified in the chapter by Vincent Tucker. But the framework of an integrated approach needs to clearly link popular capital and labour as driving the sustainability of the local economy. Through common ownership they drive the natural and cultural resources not the other way around (see Fig 4 p184). With this lost understanding reinstated at the centre of the global co-operative movement locally generated and sustainable consumption patterns can be established based on sustainable energy and production rooted in community ownership. The Credit Unions cannot do this alone but they can play a critically important role as a catalyst for the rest of a fragmented movement. A divided co-operative movement must reintegrate in terms of joint ventures and refocus back to its true ends not as some exercise in parochialism but as a global response to the global crisis. People will rally to a co-operative movement that works together for common ownership in communities driving sustainability and local economic democracy. This book has a clear message of huge unrealised potential that will be unlocked when the vision of the past drives the strategies for all our futures. It should be widely read not just in Ireland but by the many 'Irelands' that exist across the planet.

Peter Davis

Capital and the Debt Trap. Learning from Co-operatives in the Global Crisis

ISBN 978-0-230-25238-7 · ***Claudia Sanchez Bajo and Bruno Roelants***

This is one of the best books on the co-operative role in the contemporary economy I have ever read. I hope and trust it will become a 'best seller'. Ian MacPhersons Foreword sums up the purpose structure and qualities of the book perfectly and I will quote Ian here.

> *"…this book presents a thoughtful and exciting consideration of the roles co-operatives can play…. (in explaining) how and why co-operatives should be seen as important players in the international economy today…the authors take seriously the underlying values and principles on which the co-operative movement and its institutions rests……. Third, the book provides a stimulating discussion of the importance of control of the economy………. Fourth, the book provides case studies of quiet different types of co-operative organisation in four widely divergent circumstances in Mexico, France, Spain and Quebec…………Finally, the book is particularly interesting because it addresses the 'big picture'. It looks at the commanding heights of economic and social change and not just at local accomplishments and victories. This is a refreshing, and relatively uncommon, exception in the intensive literature of the co-operative movement. There is always the danger in co-operative writing………to be fascinated with the beginnings of co-operatives, and with the success achieved by small bands of people coping with adversity………with what one might call the 'Romance of Co-operation'……..This book ……… dares to postulate the possible centrality of co-operative enterprise today and in the future."*
>
> Ian MacPherson, Foreword, ppx-xii, Bajo S.C. and Roelants, B. (2011) Capital and the Debt Trap. Learning from the Co-operatives in the Global Crisis, Palgrave Macmillan

I completely agree. *Capital and the Debt Trap* provides a sustained critical political economic analysis of the processes in the modern global economy that have led to the current crisis and will, if left unchallenged, lead to the next one. The authors provide a detailed examination of the dimensions, causes and stages of the economic crisis. The authors provide a very useful statement of the major contending academic explanations for the crisis in terms of three hypotheses based on individual behaviour hypothesis; the monetary excess hypothesis and the institutionalist hypothesis before coming down in favour of a fourth explanation – the systemic reproduction hypothesis – that the system has become incapable of regulating itself so as to generate more value than it destroys. However even here the authors note some deficiencies in the analysis for whilst the approach is more global and inclusive than the three traditional explanations discussed earlier the solutions to the crisis are situated at the level of regulation by the nation state, surely a highly problematic solution unless there is considerable coordination between the major economic regions. Secondly the authors point to the approaches failure to recognise the uneven nature of the crisis impact a fact that may make regional co-operation even more problematic. In fact the authors analysis of the roots of the crisis draws on all the approaches as they sketch out three traps; the consumption trap, the liquidity trap and the debt trap and the role of these respective issues in facilitating the economic crisis. At the risk of massive oversimplification of the authors analysis they imply at least that credit funded consumption culture in the context of economic inequality leads to liquidity problems for households and institutional lenders which when the bubble bursts requires structural financial rescues by national governments of institutional lenders who have imprudently lent money based on inflated speculative expectations. The government lending leading to large scale national debt requiring in some cases 'bailouts and structural adjustment policies'.

There then follows a chapter reviewing the literature on ownership and agency theory into which the authors introduce the co-operative model of ownership and governance. In so far as it looks at economic behaviour as influenced by technological and structural factors like management and ownership. The impact of co-operatives non-transferable shares on its ability to ignore the capital markets is briefly referred to on p 113 but needed more development as a key factor enabling the delivery of the co-operative difference and in enabling the very existence of the co-operative option to assist the regulation of the market. The forced retreat by the big four banks on ATM charges by the tiny UK Co-operative Bank and the Nationwide, formerly Co-operative Permanent, Building Society and the successful campaign against the big banks investments in the arms trade by the UK Co-operative Bank being cases to point here.

In their economic and institutional analysis the authors implicitly suggest questions regarding the development of the 'new economics' thinking in the academic literature and a possible co-operative economic order to replace the existing one. Beyond alternative business models and financial systems lies the real economy which requires surely an alternative theory of economics based on labour rather than capital where sustainability and human capital development might come centre stage. The authors present a very thorough examination and defence of co-operative rationality across its values and its basic principles and operational practices coming down with a not unreasonable proposal that the stakeholder model fits the idea of a co-operative very well. The resilience and range of co-operative activity is ably demonstrated in this books review of the movement globally.

I do not accept that the idea of economic enterprise is, as the authors suggest (p116), subordinated to its associational character. Rather it is integral to it for it is by association that leverage in the market as price makers not price takers is possible for the membership of a co-operative. The integration of social and economic in a holistic practise is the co-operative difference delivered in a series of added values to stakeholders which carry both social and economic dimensions. To consider the books four case studies it was refreshing and amusing to note that the Mexican fishermen have the sophistication to hire a scientist to help them with their conservation strategies. This puts them way ahead of the leaders of insurance co-operatives who have to deal with risk assessment. In the UK Terry Thomas did introduce the Natural Step audit model to the UK Co-operative Bank but the hiring of environmental scientists is not something common even amongst the biggest and best resourced co-operatives. From financial services and community development in Quebec, to community banking and local high tech manufacturing in Spain, to worker buy-outs in France all four cases show that co-operatives, locally financed and locally resourced in terms of a membership with a clearly defined community dimension can be powerful mechanism for distributive justice and community development and a focus for local identity and solidarity. Hers is a sustainable and durable economic organisational model based on membership not capital investment to determine ownership and governance. The case studies are all remarkable for their achievements and demonstrate the author's thesis that the co-operative model is not only rational and practical but completely relevant for the challenges of our times. What is left for me now is to highlight one or two issues that perhaps need more attention than the authors gave. Advocacy is all very well but there needs to be realism to. There are four areas that need in my view to be honestly confronted and overcome if at the global level co-operatives are to do the job they have the potential for as advocated by the authors of this book.

First, there is the question of the clear failure of co-operatives to co-operate. Their segmented silos (Consumer, Agricultural, Insurance, Banking, Credit Unions, Worker and others) rarely communicate and remain suspicious of each other.

Secondly, whilst big co-operatives must lead at the global level the truth is that in the vast majority of cases they have failed to engage the overwhelming majority of their membership beyond the purely economistic dimensions of their activities. The values and principles of education, voluntarism, democracy and community are not understood nor practised.

Third there is the problematic of attempting a co-operative governance where the agents/managers have little sympathy for the co-operative ideal. In all four cases studies this issue was not relevant but it's not helpful and frankly misleading to leave the impression to the naive reader that this is indeed the case in general.

The fourth problem with the analysis in this book in my view is that it did not sufficiently emphasis the multidimensional nature of the crisis that requires a co-operative solution beyond the economic issues. *There was not sufficient emphasise in this book to the question of finite resources, climate change, demographics and time.* It may be unfair of me to blame writers for not writing about issue outside the remit of their work. But my reply is that once you make the perfectly correct distinction between the *real* economy and the *financial sector* driven by credit and speculation any discussion of the real economy today cannot ignore the economic cost as well as the social and political costs of the crises of climate change, resource depletion and environmental degradation.

This book by Claudia Sanchez Bajo and Bruno Roelants makes an important contribution to raising awareness of the co-operative potential. Its four case studies give us serious co-operative examples of what community can achieve through association. The contours of a co-operative economy that is facing up to the multi-dimensional crisis we face today must face up to and answer the issue of how to achieve a zero growth or even a low grow economy. If ever a book was inviting a sequel it's this one. I look forward to its authors writing it.

Peter Davis

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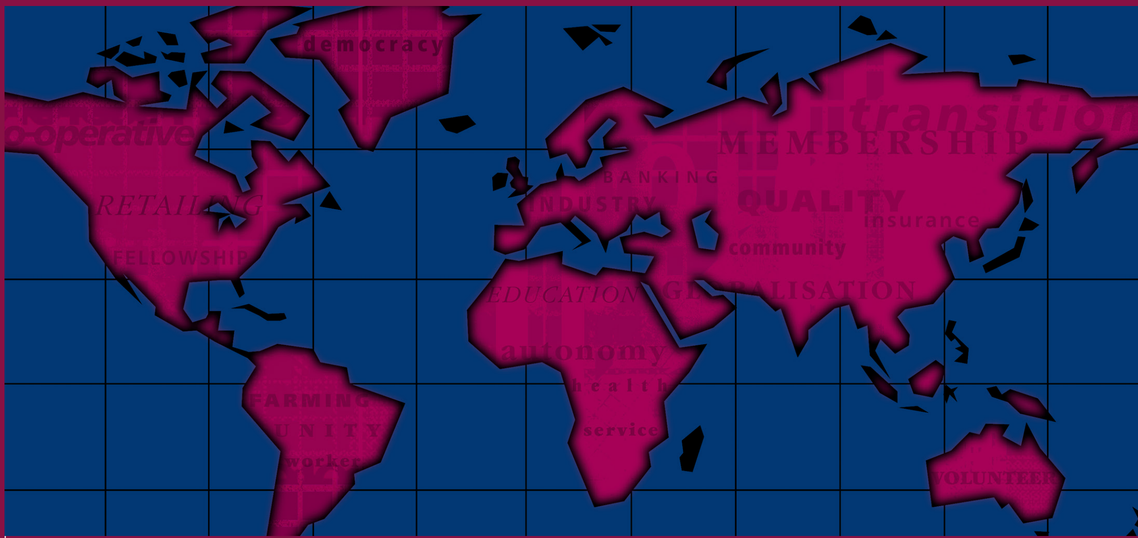

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