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Merging into the mainstream? An empirically-based discussion of the potential erosion of competitive advantage in a restructured Irish credit union movement

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ABSTRACT

Credit unions are key constituents of the financial services landscape in Ireland. Currently, the movement comprises mostly small-medium, local, autonomous credit unions. Restructuring is viewed as a means to ensuring viability and achieving economies of scale and scope. Debate has focused on the advantages of restructuring without due concern for its negative consequences. We argue that the competitive advantage of community-based credit unions is inextricably linked to their geographical scale and the implications of restructuring for competitive advantage must be considered. Using qualitative data obtained through interviews with borrowers in seventeen community-based credit unions, we construct a typology of factors influencing members' decisions to borrow from credit unions during a time when credit was widely available and marketed aggressively by the conventional banking sector. We conclude that non-bureaucratic, member-centred systems and relational factors tend to outweigh material

considerations in members' decisions to borrow from credit unions. Moreover, both sets of factors relate not only to the movement's ethos but to the 'connectedness' or sense of 'the local' experienced by credit union members. In the context of a restructuring agenda dominated by mergers and amalgamations, there is a need to guard against the erosion of the movement's unique, community-embedded competitive advantage.

Merging into the mainstream? An empirically-based discussion of the potential erosion of competitive advantage in a restructured credit union movement

1. Introduction

One of the key determinants of the competitive advantage of co-operatives is their member-centred focus (Briscoe and Ward, 2005; Somerville, 2007; Spear, 2000). Proximity to members, geographically and socially, has been identified as one of the key factors that facilitates the close affinity between members and their co-operatives (Ayadi et al., 2010; Byrne, et al., 2012; Jussila et al., 2012a; Tuominen et al., 2013). The challenge for co-operatives of protecting their member-centred source of competitive advantage, while pursuing growth strategies that will enable them to thrive in a 21st-century context, has become a key focus for debate in the literature (Jussila et al., 2008; Tuominen et al., 2013; Tuominen et al., 2013; Uski et al., 2007).

The credit union movement in Ireland is an example of a consumer co-operative sector that recently has come under increasing pressure to restructure, especially since the banking crisis of 2008 and the consequent regulatory reforms. From its origins in the late 1950s as a self-help mechanism to combat financial exclusion, over the past half-century the credit union movement has moved from the margins to the mainstream of the financial services sector in Ireland, enjoying a membership rate estimated at 65 per cent of the Republic's population (ILCU, 2013).[1] Integration into the mainstream, however,

[1] This penetration rate compares favourably even with countries that have longer-established credit union movements, such as the US, Canada and Australia (McKillop et al., 2006; Commission on Credit Unions, 2012). Widespread membership of credit unions is partly a legacy of the Catholic Church's advocacy of the movement in the 1960s, which helped it to earn public confidence (O'Connor et al., 2002).

brings new challenges for the credit union movement. These include the need to remain competitive *vis-à-vis* conventional financial service providers and the obligation to comply with increasingly stringent legislation and State regulation to ensure financial stability and guarantee the security and protection of members' assets. The former creates the need to offer a wider range of products and services and to develop service delivery channels; the latter emphasises the need to implement more rigorous procedures, manage risk, and achieve operational efficiencies and economies of scale and scope. Restructuring in the form of mergers has been proposed as a mechanism to facilitate the movement in meeting these challenges (Commission on Credit Unions, 2012). Indeed, this has been the dominant trend observed in longer-established, 'progressive' credit union movements internationally (Ferguson and McKillop, 1997). However, this construction of the notion of progress may not be compatible with the co-operative ethos or the needs and wishes of members. While the case for restructuring carries some validity, there is a risk that the movement may be carried off course on this tide of 'progress'. Moreover, mergers threaten to weaken one of the key sources of competitive advantage of credit unions in Ireland – their connection and affinity with their local communities.

This paper develops a deeper understanding of competitive advantage in community-based credit unions. It does this by using a qualitative methodology to examine the reasons why Irish credit union members prefer to borrow from credit unions over other financial institutions. To date, methodologies employed in studies on the relationship between consumer co-operatives and their members, and the role of local affinity in this, have tended to focus on the views and experiences of management, elected officers and other individuals with 'expert' knowledge (e.g. Jussila et al., 2007; Tuominen et al., 2006; Tuominen et al., 2013). While these perspectives are critical to developing an understanding of the relational dimension of co-operative advantage, equally important is the need to explore these issues with 'ordinary' members. In the context of restructuring in the Irish credit union sector, a starting point has been provided by Byrne et al. (2012), whose study of 'ordinary' members provides empirical support for the contention that "members value their relationship with the credit union and are not willing to trade its local nature for increased services" (Byrne et al., 2012, p.39). In this paper, we build on this emergent strand of the literature. We adopt a qualitative methodology that focuses on members' experiences, creating a narrative that provides further support for the contention that 'local connectedness' is a key factor contributing to credit unions' competitive advantage. This methodological approach contributes a new dimension to the literature on restructuring and its implications for competitive advantage. We argue that competitive advantage may be eroded by efficiency-driven restructuring programmes that may weaken this 'connectedness'.

The paper begins with an outline of the context for the restructuring agenda in the credit union movement in the Republic of Ireland, highlighting the risks posed to competitive advantage. It then proceeds to conceptualise the relationship between credit unions and their members, drawing on the co-operative literature but also on literature related to consumer behaviour and financial services. Our findings regarding members' reasons for choosing credit unions as a credit provider are then presented and discussed in the context of this literature.

2. Restructuring: A stabilising or destabilising strategy?

Currently, the credit union movement in the Republic of Ireland comprises almost 400 small-to-medium sized, autonomous credit unions, catering for a total membership of 2.98 million (ILCU, 2013).[2] Critics of this fragmented structure argue that smaller/weaker credit unions need to amalgamate with, or transfer engagements to, bigger/stronger credit unions to create viable entities. The case for restructuring gained momentum in the context of the economic crisis that unfolded in 2008. The role of the banking sector in contributing to the crisis focused attention on the need for more rigorous regulation of financial services. In particular, the institutions responsible for bailing out the Irish economy (the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission – collectively known as 'the Troika') demanded more robust regulatory frameworks for all financial institutions, including credit unions, irrespective of the their role in the economic downturn. The implementation of measures to comply with regulation results in escalating costs for credit unions. Simultaneously, high liquidity requirements and lending restrictions

[2] This figure includes not just community credit unions, but also occupational and industrial common bonds. It should be noted that many individuals are members of more than one credit union; for example, it is possible to be a member of the credit union in the community where one resides, and also where one works. Therefore, the figure of 2.98 million is slightly inflated.

constrain their ability to generate income at a time when loan arrears and losses on investments are also negatively affecting performance (Gilleece, 2012, p.56). The increasing costs of compliance with new regulation has been identified as a factor that reduces the viability of small banking organisations (Ferri and Pesce, 2012), thereby supporting the case for mergers.

The rationale for mergers is probably also influenced by the notion that national credit union movements progress through different stages. Proponents of this notion contend that mature stage movements inevitably comprise a smaller number of larger credit unions with enhanced capacity to deliver a diversified range of services in an economically efficient way. Ferguson and McKillop (1997) have been to the forefront of this debate. Based on their observations of the credit union movement internationally, they have categorised credit union movements as nascent, transitional and mature. In addition to the restructuring outlined above, some of the key changes that occur as a movement matures include a greater emphasis on efficiency, well developed central services, professionalisation of service, loosening of the common bond and increased competition. Ferguson and McKillop's (1997) theory embodies an inevitability that credit union movements must 'progress' through each stage of development.

The Commission on Credit Unions (2012), which was established by the Irish government in 2011 to make recommendations on the future development of the movement,[3] places Ireland's credit union movement in the transitional phase of Ferguson and McKillop's (1997) typology. In its report, the Commission, which was chaired by McKillop, advocated restructuring as a key mechanism to facilitate the movement in meeting key challenges. Adopting the recommendations of the Commission's report, legislation enacted in 2012 provided for the establishment of a restructuring board to oversee the "voluntary, incentivised and time-bound" restructuring of credit unions.[4] Hence, restructuring is now firmly on the agenda.

If credit unions wish to compete with mainstream financial services providers and achieve efficiency of operations, then restructuring may be inevitable. What should not be inevitable is the format that restructuring takes (Byrne et al., 2006b; Byrne et al., 2012). The process of reconciling the social mission of credit unions with economic reality creates tension in the movement. This tension is experienced across the not-for-profit sector and is described by Jager and Beyes (2010, p.82) as "the delicate and contradictory interplay of mission focus and commercial imperatives". If credit unions focus on their social mission to the exclusion of other considerations, such as operational efficiency and diversification into new services, they may find themselves retreating to the margins of the financial services sector. If, on the other hand, they concentrate on financial performance indicators at the expense of social considerations, they may become completely absorbed into the undifferentiated mainstream of the sector, thereby losing their competitive advantage.

[3] The Commission on Credit Unions was established to advise government on the future development of the credit union movement in Ireland. Its recommendations particularly focused on the strengthening of the regulatory framework for credit unions and the revision of legislation.
[4] The Credit Union Restructuring Board is commonly known as ReBo.

We argue that a key challenge for credit unions is to achieve a balance between social mission and financial viability that will allow them to offer an efficient, comprehensive service to members while capitalising on the positive features that make them different to their competitors in the conventional banking sector. Key differentiating characteristics of community-based credit unions include local ownership, local control and local accountability. These, we argue, cultivate trust and loyalty among members – factors that are notably absent in the more anonymous structures of the conventional banking sector.

While acknowledging that mergers may offer solutions for struggling credit unions, Jones and Ellison (2011) caution against the risk of mergers gaining such momentum that other possibilities for restructuring become excluded from the agenda. This could lead to "real disadvantages in regard to loss of local identity and community engagement" (Jones and Ellison, 2011, p.79). The transfer of engagements by a weaker credit union to a stronger one inevitably involves a transfer of control and decision-making. This, Byrne et al. (2012) argue, compromises the extent to which the acquired credit union is embedded locally, thereby diminishing the quality of its relationship with members. As noted by Jones and Kalmi (2012), the evidence from international studies indicates that mergers do not always lead to economies of scale; moreover, centralisation and up-scaling may also impact negatively on member democracy. The literature offers examples of alternative restructuring models that have been implemented successfully in credit union movements in other jurisdictions (Byrne et al., 2012; Jones and Ellison, 2011) and in other co-operative sectors (Byrne et al., 2011a), as well as solutions from other sectors that could be applied to co-operatives (Filene, 2011). Such collaborative structures, which include networks, alliances and federations, may allow credit unions to meet the challenges faced by a movement in transition without compromising their affinity with members.

3. The credit union – member relationship: A key source of competitive advantage

An understanding of members' relationships with their co-operatives is of critical importance to understanding the competitive advantage of credit unions and how it can be maintained and developed. In this section, we consider key themes that have emerged in the literature on members' commitment and attachment to their co-operatives (e.g. Byrne and McCarthy, 2005; Byrne et al., 2012; Fulton, 1999; Hansen et al., 2002; Jussila et al., 2012a; 2012b). However, while credit unions are structured as co-operatives, their core operation is the provision of financial services to members, who must also be viewed as consumers. Indeed, as they move into the mainstream of the financial services market, it could be argued that most members view credit unions first and foremost as financial services providers and secondly, if at all, as co-operatives. Members may assume that credit unions are just another component of the financial services sector (McCarthy et al., 2000) and they may see themselves as customers rather than owners of their credit union. Therefore, it is to be expected that most members of credit unions will engage in typical consumer behaviour. This might involve searching for alternatives, comparing the services provided by their credit union *vis-à-vis* conventional financial institutions, and expressing their preferences through their uptake of services from a range of financial service providers. In this context, we introduce some concepts from the consumer behaviour literature that are closely related to concepts discussed in the literature on co-operative commitment and attachment. We also discuss some of the literature on financial services that can contribute to our contextual understanding of members' relationships with their credit unions.

Within the co-operative literature, academics have sought to understand members' commitment to their co-operatives in terms of its affective and utilitarian dimensions (Byrne and McCarthy, 2005; Jussila et al., 2012a; 2012b). Utilitarian commitment is determined by cognitive evaluation of factors such as cost, convenience (e.g. location, opening hours, flexibility of repayment schedules) and past experience. Affective commitment to an organisation is more complex, "reflecting the member's *desire* to remain attached" (Jussila, 2012a, p.2, emphasis added). Jussila et al. (2012a) identify three main themes within the co-operative literature on affective commitment. The first of these is 'identification with the co-operative'. *Identity congruence* is influenced by the extent to which the practices of the co-operative meet the member's ideal of the organisation (Foreman and Whetten, 2002). Closely related to identity congruence is the concept of *organisational justice* (Chi and Han, 2008), which reflects the extent to which members feel the organisation is acting in the interests of members. High levels of identity congruence and organisational justice contribute positively to affective commitment.

The factors influencing identification with the organisation are closely related to the second theme in the literature, 'co-operative-based self-esteem'. Essentially, this relates to the individual's perception that they matter to the organisation. Jussila et al. (2012a) argue that co-operative-based self-esteem is strengthened when members experience a positive response from the organisation in 'times of trouble'.

The third theme, 'psychological ownership', refers to the sense of ownership, representation and control that a member feels in relation to the co-operative. When these feelings are high, the member experiences the organisation as a part of their life, resulting in "feelings of ownership and a fusion between the member and the organization" (Jussila et al., 2012a). The high level of attachment promoted by these positive feelings consolidates the competitive advantage of co-operatives *vis-à-vis* their conventional competitors.

3.1 Credit union members as consumers

There is some overlap between key ideas in the co-operative and consumer behaviour literatures (e.g. Aldlaigan and Buttle, 2005; Byrne and McCarthy, 2014; Hansen et al., 2002; Johnson and Grayson, 2005; Jussila et al., 2012a). Both explore key concepts, such as trust, loyalty, commitment, identity and patronage. Also examined are influencing factors such as: scale, size and geographic context of service providers or co-operatives; technology-enabled service delivery; and types of interaction between service providers and users.

Similar to the co-operative literature, within the consumer behaviour literature, issues such as attachment, trust and loyalty tend to be examined in terms of their utilitarian/cognitive and affective dimensions. For example, a consumer's cognitive trust in a service provider is formed on the basis of the service provider's past behaviour towards them and also their reported reputation in relation to their behaviour towards others. Affective trust, which Johnson and Grayson (2005) argue is influenced primarily by personal experience, is based on "feelings generated by the level of care and concern the partner demonstrates" (p.501).

In their study of customers' attachment to retail banks in the UK, Aldlaigan and Buttle (2005) identify three forms of positive attachment: o*rganisational credibility*, *relational values* and *values congruency*. The first of these, o*rganisational credibility,* includes factors such as the perceived level of competence and security of the service provider, value for money and "the customer's confidence, trust and respect in the system" (p.354). To assess a service provider's *organisational credibility*, consumers are likely to process cognitively factors such as cost and convenience, and draw comparisons between various providers. They may also refer to any past experience of the provider and its reported reputation in dealing with other customers. This aligns with the utilitarian dimension of commitment discussed in the co-operative literature.

The second and third forms of positive attachment outlined by Aldlaigan and Buttle (2005) reflect the dimensions of affective attachment summarised by Jussila et al. (2012a). *Relational values* refer to customers' 'connectedness' to the organisation via the quality of their relationships with its staff and/or management. Wong's (2004) study of Australian retail customers' experiences concludes that the level of emotional satisfaction arising from the service encounter is a key determinant of customer loyalty and relationship quality; more recent work by Ladhari et al. (2011) supports these findings. Finally, *values congruency* represents the extent to which the values of the organisation and its customers are shared. Financial co-operatives are governed by a democratically elected board that represents the interests of members. Therefore, the normative assumption is that high levels of identity/values congruency can be expected; however, in reality, this cannot be taken for granted. In concurrence with other researchers in both the co-operative and consumer behaviour literatures, we would argue that values congruency and other affective and utilitarian dimensions of commitment are mediated by a range of factors including, significantly, the geography of co-operative structures, as discussed in Section 3.2 below.

3.2 The role of geography in mediating the credit union – member relationship

Within the literatures on financial services and co-operatives, increasing attention has focused on territorial structures and the role of geography in mediating relationships between members/users and service providers (e.g. Byrne et al., 2012; Hansen, 2002; Jussila et al., 2012a; Sokol, 2007; Tuominen et al., 2006; Tuominen et al., 2013; Uski et al., 2007). Sokol (2007) argues that the spatial and relational distance between banks and their customers is growing. Rationalisation of branch networks and the transition to automated delivery channels – automated teller machines (ATMs), online banking and telephone banking – have limited interpersonal contact between banks and their customers and this has impacted negatively on bank staff's understanding and knowledge of the personal circumstances of their customers. Furthermore, the now widespread use of credit cards, which provide a source of 'revolving credit' (Kelly and Reilly, 2005) has changed the nature of credit provision by allowing customers to access credit remotely. Based on interviews with key personnel in the banking sector in Ireland, Sokol (2007) reports that there is widespread acceptance within the sector that 80 per cent of profits in a 'typical' branch are generated by 20 per cent of customers, and that business customers account for a high proportion of this group. As a result, many banks are adopting a strategy of keeping business customers close while encouraging personal customers to use automated delivery channels. While these technologies provide convenient access to financial services, they diminish the personal interface between banks and their customers (Durkin and Howcroft, 2003; O'Loughlin et al., 2004).

In order to provide a '21st-century financial service' to their members, credit unions need to be able to deliver technology-driven services. However, they must also take care to maintain more personal delivery channels. Because a community-based credit union's members are geographically concentrated, there is greater opportunity for interaction between members, and between members and staff. Face-to-face transactions have been identified as having a positive impact on members' affective commitment to their co-operatives (Hansen et al., 2002; Jussila et al., 2012a). Hansen et al. (2002), for example, have argued that the influence of affective trust outweighs that of cognitive trust in co-operatives whose members are geographically concentrated:

> "The more frequent social interactions [with other members and management] result in members more frequently experiencing the mood, feelings, emotions, etc. upon which affective trust is built" (Hansen et al., 2002, p.56).

In recent years, the conventional banking sector has become more distanced from its personal customers, while pursuing a strategy of developing closer relationships with business customers who account for a higher proportion of revenue. In this context, relationship lending has emerged as an increasingly important tool for banks trying to overcome information asymmetries in assessing business loan applications (Berger and Udell, 2002; Sokol, 2007). However, relationship lending has always been an integral component of the lending strategy employed by credit unions. Berger and Udell (2002) argue that relationship lending is fundamentally different to transaction-based lending policies, which are concerned with financial statements, assets, and credit scoring. While their arguments are made in the context of business lending, Berger and Udell's work (2002) can also be applied to offer insights into the personal relationship lending strategies of credit unions.

> "Under relationship lending, banks acquire information over time through contact with the firm, its owner, and its local community on a variety of dimensions and use this information in their decisions about the availability and terms of credit . . . Relationship information is often 'soft' data, such as the information about character and reliability . . . and may be difficult to quantify, verify, and communicate through the normal transmission channels of a banking organisation"
>
> (Berger and Udell, 2002, p.33).

Because credit unions operate at community level, they are ideally positioned to access and absorb this ‘soft’ information. Over time, a credit union accumulates knowledge about its local community, its members, and its economy. So, for instance, if an entrepreneur seeks a small loan for business purposes, provided the credit union has the appropriate skills to assess such loans, it would be well-positioned to assess the viability of the loan based on its knowledge of the local economy. Individual credit unions have the autonomy to make decisions on loan applications and do not have to refer them to a higher (and usually remote) authority. This means that decisions are made within the community. In relation to commercial banks,

> “Relationship lending requires that more authority be given to the loan officer, [who has] the greatest access to the soft information about the firm, owner, and community . . . The loan officer also typically lives in the local community and has contacts with other local firms and individuals that have relevant information about the firm and its owner and about the business conditions in [the] local market”
>
> (Berger and Udell, 2002, p.39).

In the context of rationalisation of bank branch networks and post offices, credit unions enjoy considerable advantage because they have a strong presence in the local community. Within credit unions, while a loan officer usually is obliged to consult the credit committee with regard to larger loans, the members of that committee are also members of the community to which the loan applicant belongs. While credit unions do not rely exclusively on relationship lending, the relationship between a credit union and its members is a key asset in helping to assess loan applications. This relationship is strengthened by the local scale of operations, which helps to avoid problems related to information asymmetries (Tuominen et al., 2006). It has been argued that the merging of co-operatives into larger, more complex entities leads to a weakening of interpersonal relations, which may be detrimental to 'personal bonds of trust' or 'thick' trust (Borgen, 2001, p.214).

4. Exploring the rationale for borrowing from a credit union

4.1 Methodology

In a recent survey commissioned by the Irish League of Credit Unions (ILCU), 67 per cent of respondents agreed that credit unions in the Republic of Ireland had greater integrity than other financial institutions, while 73 per cent expressed the belief that credit unions deliver a superior service (ILCU, 2013). These are interesting statistics but they do not reveal the underlying rationale for these beliefs. With the aim of developing an understanding of this rationale, in this paper we re-visit the findings of interview-based research conducted during the economic boom that preceded the banking crisis of 2008.[5] At that time, the research was directed towards developing insights into the experiences

[5] Given that the case studies were undertaken with members who borrow regularly from the credit union, our study does not encompass individuals who have been refused loans consistently, although there were some examples of people who were refused on occasion.

and motivations of credit union members in accessing credit through their credit unions, ultimately with a view to understanding why credit unions remained so popular at a time when credit was marketed aggressively by mainstream financial service providers.[6]

Since the economic crisis, despite growing membership and savings, the amount on loan by credit unions in Ireland has been declining (ILCU, 2013). This is attributed to State-imposed lending restrictions on credit unions and also members' lack of appetite for additional personal debt in a recessionary economy.[7] However, the restructuring of the movement that is being set in motion now must be planned to position credit unions strategically in the financial services market that ultimately will emerge out of the recession. In this context, it is timely that the findings of our pre-crisis research be re-visited. An understanding of the sources of competitive advantage for credit unions in the highly competitive market that existed before the crisis can provide a compass to guide the movement through its current phase of transition.

The research is based on interviews conducted with 68 borrowers in seventeen randomly selected credit unions throughout the Republic of Ireland.[8] In each of the credit unions, interviews were conducted with four members identified as using the credit union's lending service on a regular basis. A purposive sample of the members was selected to

[6] The results of this study were presented by the authors at a Credit Union Summer School in University College Cork, June 2008.
[7] Legislation enacted in 2012 gives powers to the Central Bank of Ireland to impose certain restrictions on credit union lending. These include the setting of limits to the duration, size and classes of loans.
[8] The seventeen credit unions were drawn from urban, suburban and rural credit unions throughout the Republic of Ireland.

include an appropriate cross-section of the membership, including students, employees, self-employed and retired persons.

Analysis of the interviews was conducted by identifying and coding key words and phrases used by participants to describe their experiences and perspectives. In line with the procedure outlined by Seidman (2013), the categories into which responses were organised were not predetermined by the researchers; rather they began to emerge as we systematically reviewed members' responses. Initially, responses were collated into two sets of criteria that influenced members' decisions to borrow from a credit union instead of another credit provider. The first of these sets of criteria related to what we call 'hard' financial and/or tangible factors that, as such, are measurable. These include, for example, interest rates, opening hours, accessibility/convenience, absence of transaction charges, and rebates on interest paid.[9] Members process these factors cognitively to assess organisational credibility. The second set of criteria is far more intangible and subjective. It includes 'soft' factors, such as: the ethos that provides the overall credit union experience and contributes to the member's sense of identification with the credit union; friendly and approachable staff, who foster relational connectedness; and the sense of reciprocal loyalty that is developed over time through the member's relationship with, and experience of, the credit union.

Upon further consideration, these two sets of criteria were subdivided into four categories. The first set of criteria (tangible) includes *material benefits* and *systems*.

[9] The rebate is a percentage of the interest paid on a loan, returned to borrowers whose repayments are kept up-to-date. This is a system of rewarding members for borrowing and, more importantly, for repaying according to the agreed schedules.

Material benefits to members relate to the perceived cost of borrowing from a credit union compared with other credit providers, while *systems* include member-oriented loan application procedures and other processes. The second set of criteria (intangible) is focused primarily on: how members perceive staff and volunteers in the credit union based on their interaction and experience or, to use Mittal and Lassar's (1996) term, '*personalisation of service'*; and *social and psychological* factors that influence members, including trust and loyalty.

Seidman (2013, p.129) notes that in this type of research, "quantity starts to interact with quality . . . repetition of an aspect of experience . . . takes on weight and calls attention to itself". In this context, although our methodological approach relied on semi-structured interviews, we were able to quantify the importance of each category. Therefore, when the responses were collated into the four categories, each category was ranked according to the number of times that factors within those categories were cited by interviewees. These categories provide the framework for the reporting and discussion of our results.

4.2 Results and Discussion

When the responses were coded, classified and quantified, systems-related factors emerged as the most commonly cited reasons for borrowing from a credit union. These were followed by relational factors, socio-psychological factors and, least importantly, material benefits.

Systems

Credit unions have a very different goal orientation to banks; they are people-centred rather than profit-driven and this is reflected in their lending systems. While the process for loan applications legally must include an assessment of the applicant's ability to repay, other characteristics, such as their track record with the credit union and personal circumstances are also key considerations. Repayment schedules are flexible and there are no hidden fees or transaction charges. In this context, the credit union operates systems that enhance their organisational credibility; that is, they demonstrate ability and willingness to provide services to members in a way that members perceive to meet their needs.

In our study, loan repayment flexibility emerged as the most commonly cited systems-related factor and, indeed, was the top ranked factor across the four categories. Flexibility is especially important for particular occupational categories of borrowers, such as farmers, small business owners and students, as their irregular incomes, and seasonally variable cash flows, make it difficult to adhere to strict repayment schedules. One student, for example, stressed how credit unions were willing to accommodate students by granting them short-term loans while they awaited their State-funded education grants, which were often delayed. Another expressed a preference for her credit union's student loan facility, which allows the student to service the loan by 'interest only' payments during the academic year and clear it when money is earned from summer employment. Small business owners provided examples of borrowing to pay utility bills, suppliers, and employees' social insurance contributions. They could repay their loans in lump sums when they received outstanding payments for products or services. Similarly, farmers stressed the seasonality of their income and the importance of the credit union's flexible repayment schedules. The second- and third-ranked systems-related factors cited by study participants related to efficiency in processing loan applications and the lack of bureaucracy that facilitates this. Borrowers emphasised that they were able to secure a loan quickly and easily. A member with a good repayment record could simply telephone or call into the credit union and obtain a small loan immediately. The fact that decisions are made locally facilitates an efficient loan application process.

The emergence of systems-related factors as the top-ranked reasons for choosing credit unions as a source of credit suggests a strong utilitarian dimension to the study participants' relationship with their credit union. However, the relationship is more complex. Systems factors are directly related to the scale at which credit unions operate. In contrast to banks, which are characterised by hierarchical organisational structures, each credit union operates autonomously. Therefore, there is no requirement for the bureaucratic structures that are necessary for the operation of complex networks of geographically dispersed branches. Systems, therefore, are influenced by the culture and organisational structure of credit unions, which is characterised by their local focus and the intimacy afforded by their small scale and autonomy. In this context, one interviewee explained that when applying for a loan from a credit union:

> “you are dealing with someone you know – and they know you – instead of someone in an office in Dublin [head office] who has never talked to you making a decision which affects your livelihood” (male, 40s).

Because credit unions operate within a common bond system and are run by people from within the community, there is stability and continuity in their relationships with members. In contrast to the mainstream retail financial services sector, where “relationship experiences [are] enjoyed only by a select minority” (O’Loughlin et al., 2004, p.532), credit unions offer a more positive and engaged ‘relationship experience’ to all members, regardless of their financial status. This level of intimacy impacts positively on the decision-making process in relation to lending. However, if mergers were to gather momentum on the basis that ‘bigger is better’, there is a risk that the necessary adaptation of structures would demote currently autonomous credit unions to the status of sub-office, thereby creating a spatial and relational distance between members and decision-makers (Byrne et al., 2012).

Relational factors or ‘personalisation of service’

Mittal and Lassar (1996, p.96) define the term ‘personalization’ as “the social content of interaction between service employees and their customers”. Studies of members’ attitudes to, and experience of, Irish credit unions consistently emphasise the importance of credit union personnel in shaping members' perceptions (Bowen et al., 1999; Amarach, 2009)[10]. Based on our study, the way in which credit union staff and volunteers relate to their members emerges as a key source of competitive advantage, particularly in the context of the relationship experience that has already been highlighted. After systems-related factors, 'people factors' were the next most commonly cited reason for borrowing from a credit union. Staff and volunteers in the credit union were described as being friendly, approachable and helpful, demonstrating empathy for members and their circumstances. Many of these comments were made in a comparative context, which contrasted participants' experiences and perceptions of banks and credit unions. Credit unions were described as providing a more personal service, with staff and volunteers taking time to listen to their members, for example: "Credit union service is more personal and nothing seems too much trouble" (male, 43); "Credit unions are more sympathetic and accommodating than banks" (male, 30s). These positive experiences contribute to a strong sense of organisational justice, thereby helping members to identify with their credit union.

Provision of a quality service to members is the *raison d'être* for a credit union; its members' interests – collective and individual – are the primary factors that influence policy and decision-making. The movement's motto "not for profit, not for charity, but for service" epitomises this ethic. Credit union staff and volunteers are influenced by this particular culture where products are designed to serve members rather than to generate profit. This was a key theme to emerge from the case studies. For example: "the staff are

[10] In a research report commissioned by the Irish League of Credit Unions and conducted by Amarach Research in 2009, "friendly staff" emerged as the top satisfaction driver cited by members.

warm and friendly and they are really on your wavelength; they are not trying to sell you a loan" (female, 33).

Because the credit union's 'customers' are its only shareholders, staff and management are not under pressure to generate profit and do not operate on a commission-based reward system. Therefore, they can afford to take the time to talk to members and they realise that this is important in their role as socially responsible financial service providers. In this context, many members emphasised the high degree of respect and courtesy with which they were treated, regardless of the amount of money they had saved with the credit union. Because of the lack of formality, it was easy to secure a meeting with the manager. One member highlighted a "great community spirit amongst staff and management, their willingness to help [and] their entire attitude to members" (40, male).

The ease with which members can access a loan does not mean that credit unions lend without due consideration of the individual's means to repay a loan and members are aware of this. In fact, members highlighted the responsible way in which credit unions lend. As expressed by one individual: "I like to use the credit union rather than the banks as the credit union tends to keep an eye on me – like a big brother [in a positive sense] looking after my finances" (male, 18-25). Similarly a self-employed member said: "I never get in over my head and I have a good understanding with the credit union" (male, 56-65). These statements indicate acceptance and approval of the benignly paternalistic role adopted by the credit union in its duty of care towards members, and are indicative of members' affective attachment to the credit union. The ease with which members reported they could secure loans is not indicative of irresponsible lending by credit unions. Rather, the lack of bureaucracy, or ‘red tape’ makes credit unions more accessible.

The role of personalised service in fostering members’ attachment to the credit union and, therefore, creating and sustaining competitive advantage, should not be underestimated. However, positive relational factors do not exist in a vacuum; rather they support, and are supported by, the institutional framework within which they operate. Because they are user-friendly and member-oriented, the systems operated by credit unions are conducive to a positive atmosphere where members feel comfortable, and staff and volunteers are perceived as being friendly and helpful. Furthermore, volunteers are involved in the credit union because (arguably) they are motivated by the ethos of the credit union movement; this contrasts with the banking sector where profit is the primary motivation.

Socio-psychological factors

The third set of reasons that influence individuals’ preferences for the credit union as a loan provider relates to social or psychological factors. These include an affinity with the ethos of the credit union movement, perceptions of credit unions *vis-à-vis* conventional financial institutions, loyalty towards the credit union, and the influence and recommendations of family.

The “not for profit” ethos was highlighted by study participants as a positive aspect of credit unions and this appeared to be a significant factor influencing members’ preferences for credit unions as a source of credit. This affinity for the credit union ethos was closely associated with contrasting negative perceptions of banks, which identified profit as the sole motivating factor for their existence. Respondents demonstrated an awareness of the social contributions that credit unions make to their community and an appreciation of their member-oriented ethos, something that they perceived to be markedly absent from the banking sector. In parallel with this, there is the perception that, as expressed by one participant: “the banks are for the rich whereas the credit union is for the ordinary people” (female, 25).

Positive perceptions of the credit union were based on both personal experience and reputation-enhancing ‘word of mouth’. These positive perceptions were often contrasted with negative experiences of other financial institutions, and preconceived [negative] ideas about other financial institutions based on anecdotal evidence. Many examples of positive experiences were related back to family members’ experiences, which had led to members developing a positive impression of, and relationship with, the credit union over time. For instance, one woman recalled her mother speaking highly of the way in which the credit union dealt with her application for a small loan many years ago [when it was difficulty for ‘ordinary’ people to access credit] and she was still ‘grateful’ for that: “she appreciated it at the time and said that the credit union would not be forgotten” (female, 42). This suggests a belief in the reliability of credit unions in a time of personal crisis, thereby contributing to the member’s identification with the credit union. The strengthening of this sense of ‘co-operative-based self-esteem’ in ‘times of trouble’ has been suggested by Jussila et al. (2012a) as a significant factor in building members’ affective commitment to their co-operative. The woman’s statement is also indicative of the perception of a kind of psychological debt of gratitude to the credit union.

For some individuals, these positive impressions were so strong that they did not even consider other sources of credit: “I didn’t think of approaching any other financial institution as my parents had always dealt with the credit union and it was automatically my first choice” (male, 23). Another example of the influence of family was provided by a student who stated that her main reason for borrowing from the credit union was because: “I had an account since I was a child and remembered calling in with my grandmother years back” (female, 22). These statements are consistent with Byrne and McCarthy’s (2014, p.2) contention that “longitudinal and collective” (including familial) experiences influence members’ value judgements.

For others, however, their decision to borrow from the credit union was based on their own negative experience of other credit providers. One individual, for example, stated:

> “Nothing would entice me to borrow from a conventional financial institution due to a bad experience some years ago. I took out a car loan – attracted by a free mobile phone offer and a year’s free [car breakdown assistance] policy. At the end of the agreement it turned out that I had taken out a lease and there was still a balloon payment outstanding. I was tricked

> and the details of the agreement were not fully explained at the start" (female, 45).

This anecdote highlights the marked contrast between the image of banks and that of credit unions, the latter being regarded as a trustworthy organisation that prioritises the individual and collective interests of its members. Members trust the credit union implicitly and explicitly and this contributes to the high levels of identity or value congruency that build affective commitment. Another borrower expressed the opinion that "borrowing from our credit union is like borrowing from a friend" (late 50s, small business owner). The use of the term "our credit union" is significant in that it conveys a sense of psychological ownership and community, and/or an understanding of the actual ownership structure.

Additional empirical evidence of these perceptions is provided by research commissioned by the Irish League of Credit Unions (Amarach, 2009). The study found that 77 per cent of respondents trusted the credit union to have their "best interest at heart". The foundations of this trust are long-established and have been perpetuated by the continuing socially responsible position of the credit union in the community. The fact that the shareholders and end-users of the service (i.e. members) are the same people and that there is local accountability also facilitates trust in the credit union; this contrasts with commercial banks where the profit-seeking interests of shareholders conflict with those of customers.

It is perhaps through the circulation of negative stories, such as the example of a negative experience with a bank, as quoted above, that some individuals may be led to develop preconceived negative ideas [whether accurate or exaggerated] about banks. Credit unions specialise in smaller loans and are perceived as treating all members equally. Just as negative publicity dissuades people from borrowing from banks, positive publicity about credit unions enhances their reputation and image in the community. For instance, one individual related his belief that: "if you were to find it difficult to meet repayments I have heard that [credit unions] are very understanding if approached, and it's more personal [than banks]" (45, female).

Partly influenced by these notions and experiences, when in need of a loan, there are some individuals who may repeatedly choose the credit union over banks as the former has become their customary source of credit. Their 'behavioural loyalty' may result from insufficient motivation to research alternative credit providers, in which case they can be regarded as 'passive' consumers (Beckett et al., 2000). For example, when asked to compare credit union lending services with other financial institutions, one personal borrower replied: "I cannot comment as I only use credit union lending services" (female, 36-45). Furthermore, low levels of financial capability may also act as a barrier to search for alternatives.

It cannot be stated with any certainty whether members make a conscious decision to remain loyal to their credit union or whether they are simply 'passive' consumers who fail to research alternatives. However, because of their particular ethos, and the status that this has earned them in Irish society, credit unions do appear to inculcate in members a strong sense of loyalty. As one individual stated: "if the members are loyal to the credit union, the credit union is loyal to the members" (female, 58, housewife).

Another example of this sense of loyalty came from an individual who needed a loan to start a small business during the late 1980s. Whereas the bank refused his loan application "without even a reason", the credit union gave him a loan subject to him providing a guarantor. He stated, at the height of the economic boom, he regularly received

"advertisements in the door almost throwing money at you from the bank [but] I will stay loyal to the credit union . . . [it] had faith in me and in my business plan when no one else would entertain me" (male, 56).

Indeed, in some cases, the level of loyalty becomes almost incomprehensible. For example, a couple who owned a small business reported how, in the early days of the business, they borrowed from the credit union to maintain a cash flow so they could pay their suppliers and bills for overheads. Despite their ability to pay these bills without a loan now, they continue to borrow out of "loyalty" and to support the community:

"Banks in those days didn't want to know small business like us so we ended up going to the credit union for all our financial needs. We have always, and still do, get a loan from our credit union to pay our annual business and home insurances" (couple, late 50s).

Similarly, one pensioner claimed that she still takes loans from the credit union, despite not really needing them. Claiming “I can’t bring it with me, so I might as well help my community” (retired manager, late 60s), she likes to support the credit union, effectively making a donation through interest payments.

Trust in, and loyalty to, the credit union, therefore, has both cognitive and affective foundations, and many of the anecdotes related here suggest some form of psychological contract between the credit union and its members. The community context emerges as a particularly strong factor in cultivating this trust and loyalty and illustrates the importance of the local context within which credit unions operate.

Material benefits

Material benefits emerged as the least frequently cited reasons for borrowing from a credit union. Credit unions provide loans at reasonable interest rates, although at the time that this research was conducted, rates were not always necessarily the most competitive compared with bank loans. If we look beyond the interest rates, however, credit union loans delivered comparatively good value, including features such as free, automatic loan insurance, no fees and, in most credit unions, a rebate on interest paid. The low level of citation of material benefits by participants in our study may be attributed to a number of factors. For example, members may not believe that credit unions offer particularly competitive rates *vis-à-vis* those offered by banks and may be unaware of the other value-related benefits associated with credit union loans; or as Byrne et al. (2006a; 2007) have shown, other factors may be perceived to outweigh the cost benefits. Only three of the 68 respondents mentioned competitive interest rates as an influencing factor in their decision to borrow. Indeed, one individual admitted that, while he did not believe the interest rate on loans was particularly attractive or competitive, he continued to borrow from the credit union because he "liked" the way the credit union is run: "If my circumstances change . . . I can just pay the interest for some time. They are very reasonable" (male, 56-65 age-group). In other words, flexibility is perceived as a safety net and is valued more highly than a fixed lower interest rate. The greater transparency in the cost of a loan offered by credit unions was also highlighted as a positive characteristic. Specifically, because credit unions do not apply transaction charges, there are no hidden costs associated with a credit union loan.

One of the features of a credit union loan is that interest is paid only on the outstanding balance, not on the principal amount borrowed. This means that borrowers, if they can afford it, can accelerate their repayments, thereby reducing the cost of the loan. However, this was cited as an influencing factor by only two respondents, although advantages associated with the absence of both transaction charges and penalties for clearing a loan early were also highlighted. The most significant material benefit cited by participants was the rebate on loan interest paid. Members appreciated the financial return from the rebate, which comes close to the Christmas period: "the rebate is an added bonus . . . a bit like a Christmas present" (female, 26-35). While such members were pleased with the positive impact on their finances, in many cases the rebate was cited as an example of 'fairness' and as an illustration of how credit unions contrast with other financial service providers; for example, "there are no other financial institutions I know of that return a rebate on interest paid during the year" (female, 23, student).

Based on our research, it would appear that while utilitarian considerations influence the use of credit union services, these are more likely to be focused on systems components rather than cost. The relatively low ranking of material benefits as a motivation for borrowers suggests that, while the cost of servicing a loan is a key consideration for borrowers, as long as interest rates in the credit union remain reasonable, other factors are more influential in the choice of credit providers. This supports arguments by other researchers (e.g. Fulton, 1999; Jussila et al., 2012b; Simmons and Birchall, 2004) that price is not the utmost consideration; moreover, positive non-economic factors may have more influence than economic factors in members' decisions to patronise the co-operative. In the context of our argument, it is significant that material factors, which constitute the set of factors least related to locality, are also the least frequently cited by members as reasons for their patronage of the credit union. In terms of credit unions' strategies to maximise competitive advantage, however, the low number of citations of key features that give good value to members suggests there may be a need to educate members on these unique features.

It should be noted that our focus in this paper has been to identify the reasons why members preferred credit unions as loan providers even during the economic boom, when credit was marketed aggressively by conventional financial institutions. Therefore, our emphasis has been on members' positive endorsements of credit unions. We did encounter members who cited some limitations of credit unions and suggested how they might improve the range of services provided. Suggestions included lower interest rates over longer terms for larger loans and the facility to conduct transactions through credit unions in other localities. However, these considerations did not affect their preference for credit unions as loan providers.

5. Conclusion

This paper has developed insights into the reasons why credit unions in Ireland – originally developed to combat financial exclusion – remained popular during the credit boom of the 2000s. This has relevance for the Irish credit union movement, and internationally for other 'transitional' movements, if they are to develop in a sustainable way. The research also offers insights that are applicable to the wider study of co-operatives, especially the relationships between consumer co-operatives and their members.

Our study demonstrates that the factors influencing individuals' preferences for credit unions are varied. They relate to systems, relational factors, socio-psychological factors, and material benefits. From the borrower's perspective, the systems operated by credit unions compared favourably with those of banks, particularly in relation to repayment flexibility, simplified loan application procedures, and lack of bureaucracy. The personalisation of service, in particular, the friendly, approachable atmosphere created by staff and volunteers, emerged as another key asset for credit unions. Furthermore, there exists a reservoir of goodwill and loyalty towards the credit union, particularly among people who began using credit union services during the movement's first decades, when access to mainstream credit was restricted. This has created strong psychological bonds between members and their credit unions, which, in conjunction with positive systems-related factors, make the credit union the preferred loan provider, even among members who believe that it is not necessarily the cheapest provider. It is apparent, therefore, that the systems operated by credit unions, together with their mode of interaction with members, are of paramount importance to the competitive advantage of credit unions.

The Commission on Credit Unions (2012, p.1) advocated restructuring as a means "to improve efficiency and maintain the strength and stability of the sector in the future". Undoubtedly, the financial stability of individual credit unions is of key importance to the members, to the reputation of the movement and to the wider economy. However, strength and stability is derived from more than financial performance indicators. Equally important to the competitive advantage of credit unions are the relational and socio-psychological bonds that augment the member's relationship with their credit union. These bonds may be weakened by regulation-induced changes in structure and practice that lead credit unions increasingly to mirror mainstream financial institutions in their *modus operandi*.

The interplay between the utilitarian and affective dimensions of the relationship between credit unions and their members is shaped by the territorial organisation of credit unions. Because credit unions are locally-embedded, autonomous institutions with tight, spatially-defined common bonds, people feel a strong sense of 'connectedness' to them. The scale at which they are organised allows them to operate systems that are more personal and non-bureaucratic than those provided by conventional financial service providers. In an up-scaled credit union operation, these flexibilities may be replaced by superimposed, standardised, impersonal, 'bank-like' systems. Our findings provide further empirical support for the hypothesis that 'geographical compactness' (Jussila et al., 2012a) and locally embedded 'connectedness' (Byrne et al., 2012) are key factors influencing members' commitment to their co-operatives. Excessive emphasis on mergers would increase the spatial distance and, consequently, the psychological distance, between members and decision-makers. The resulting 'disembedding' effect is likely to erode members' attachment to their credit unions and, thereby, undermine competitive advantage.

Based on insights developed from interviews with members, we have argued that merger-focused restructuring could *potentially* damage the competitive advantage of credit unions. As some mergers are already progressing, timely research focused on the actual impact on attitudes and experiences of members in these credit unions would allow us to assess the extent of this risk more fully. In the meantime, alternative restructuring models, such as the collaborative initiatives advocated in the literature (e.g. Ralston et al., 2001; Byrne et al., 2006b; Byrne et al., 2011; Jones and Ellison, 2011; Byrne et al., 2012), would allow credit unions to achieve efficiencies and interconnectivity of services. Critically, this could be achieved in a way that allows credit unions to retain local autonomy, remain true to their social mission, and to both augment and sustain, rather than erode, competitive advantage.

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