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Credit Union Restructuring: Don't forget the member!

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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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