An Examination of Key Factors of Influence in the Development Process of Credit Union Industries

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Abstract

The aim of this paper is to analyse credit union industries within a development framework. Explicit consideration is given to credit union industries in four countries – Great Britain, Ireland, New Zealand and the United States. It is argued that in terms of a developmental typology the credit union industry in Great Britain is at a nascent stage of development, the industries in Ireland and New Zealand are at a transition stage while the US credit union industry is mature in nature. In progression between stages the analysis considers the influence of factors such as situational leadership, the complexion of trade associations, professionalisation, regulatory and legislative initiatives and technology. The analysis concluded that while there was a substantial commonality of experience, there were also significant differences in the impact of these factors. This consequently encouraged the recognition of the existence of 'a variety of the species' in respect of credit union development.

Introduction

There is a need for a more complete understanding of credit union development, particularly in terms of the dynamics of membership growth and the emergence of credit union industries in particular countries. Using as a start point a typology developed by Ferguson and McKillop (1997:a) this paper aims to offer a detailed consideration of the major determinants which propel particular credit union industries from one stage of development to another. By offering a classification of credit union development the typology provides a useful heuristic device for analysing this path. This paper selects key factors of influence which when analysed in terms of the original typology adds a more dynamic and holistic interpretation of the issue of credit union industry development.

The power of typology as a tool for organisational classification which provides a basis for useful research is a recognisable strand in organisational studies literature (Rich, 1992). The applicability of typology to research issues in co-operative forms of organisation is also an important element of the research armoury (Levi, 1997). The benefits of a typology include, for instance, easier recognition of fundamental structure and relationships and the provision of a platform for theory development.

However, the risk of producing oversimplified, a priori typologies that turn out to be tautologies is also a strong one (see Carper and Snizek, 1980).

It is inevitable that the development of credit unions does not conform to a single universal blueprint. This paper concentrates on (Schulze-Delitzch) credit union development rather than credit and savings societies and co-operative banks.[1] In the context of a worldwide movement there are major differences in the development of particular credit union industries. In the typology developed by Ferguson and McKillop (1997:a) three discrete growth stages are identified. These are nascent, transition and mature. Credit union industries in specific locations will potentially move from birth through adolescence to full development as a consequence of the growth in assets and members. Dependent upon the philosophical approach of particular credit union industries in specific locations, this growth might be fuelled by an instrumental attitude which favours concentration in larger unions through the pursuit of an economies of scale objective, or alternatively, it may be based upon a more idealistic approach which places emphasis on growth through increasing numbers of small credit unions (Berthoud and Hinton 1989).

The typology contains an assumption about a development path for credit unions, although it should be understood that it is a dynamic situational model which recognises that within any one credit union industry at a given moment in time, individual credit unions may not be, nor want to be, at the same stage of development. With the emphasis on maturity as an implicit goal, the typology contains an implied convergence thesis for the highest stage of credit union development. It must also be recognised that there is nothing in theory to prevent a further stage beyond maturity which entails transformation of credit unions beyond their current co-operative form to become an entirely new form of organisation through, for example, demutualisation.

[1] It is important to be aware of differences between credit unions and savings and loans societies and co-operative banks. Whilst all share a similar philosophy, they are still seen to be culturally distinctive. The latter two groups originate from the Raiffeisen model in Germany and are not members of the world council of credit unions (WOCCU), but of the Raiffeisen group, and the Association of Co-operative Banks. Lewis (1996) argues important differences between the Schulze-Delitzch and Raiffeisen models, are that the former is based on self-help and open membership, whilst Raiffeisen societies are closed by nature, emphasise mutual support, and give democratically elected committees

Since the original formulation of the typology, further work has been undertaken to gain a deeper appreciation of the dynamics of credit union development. This has entailed qualitative research drawing upon documentation provided by trade associations, industry regulators, governments and credit unions especially in Great Britain (a nascent industry) Ireland (a transition industry) New Zealand (a transition industry) and the United States (a mature industry). In addition, interviews were conducted with spokespersons of trade associations, industry regulators and credit unions in these countries. By using the findings of this transnational research, the purpose of this paper is to revisit each of the three categories of the original typology to re-evaluate and expand upon the relevance of this particular development model.

The US, albeit not the birthplace of credit unions, has progressed to its present position as a mature industry. New Zealand provides a good example of a transition industry although it may be viewed as unstable in the sense that it is poised on the verge of maturity. Ireland is also an example of a movement in transition although unlike New Zealand it is still firmly rooted at this stage of development. Great Britain is in the nascent stage and is characterised by an expanding number of small asset-volume credit unions. Again it can be argued that the movement in Great Britain is in an unstable phase in that it is arguably poised to enter the transition stage[2]. Concentrating on a small number of countries gives a focus to this study of the dynamics of credit union industry development. As a start point, it is useful to briefly summarise the basic features of each stage within the typology prior to a more extensive discussion of the forces that facilitate or hinder progression from one to another.

Stages of Credit Union Development - The Typology

Detailed in Table 1 are the three discrete growth stages identified for credit union industries. For each of the stages the main attributes are documented.

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greater autonomy than is possible in Schulze-Delitzch credit unions.

[2] More details on the efficiency, member orientation and structural characteristics of credit unions in Great Britain can be found in McKillop and Ferguson (1998) and McKillop, Glass and Ferguson (forthcoming).

Table 1
Stages of Credit Union Development

Attributes of a Nascent Industry
Small asset size
Highly regulated
Tight common bond
Strong emphasis on voluntarism
Serve weak sections of society
Single savings and loans product
Requires sponsorship from wider credit union movement to take root
High commitment to traditional self-help ideals
Attributes of a Transition Industry
Large asset size
Shifts in regulatory framework
Adjustments to common bond
Shifts towards greater product diversification
Emphasis on growth and efficiency
Weakening of reliance on voluntarism
Recognition of need for greater effectiveness and professionalism of trade bodies
Development of central services
Attributes of a Mature Industry
Large asset size
Deregulation
Loose common bond
Competitive environment
Electronic technology environment
Well organised, progressive trade bodies
Professionalisation of management
Well developed central services
Diversification of products and services
Products and services based on market rate structures
Emphasis upon economic viability and long term sustainability
Rigorous financial management of operations
Well functioning deposit insurance mechanism

Credit unions in the nascent (birth) stage are wholly run by volunteers, get financial aid, and other forms of help, from local authorities and other bodies, (Thomas and Balloch, 1994). They are missionary in nature, with a tendency for zealous leadership. In recent years much of the efforts, for instance, of the mainland British credit union movement has been aimed at helping the poor in run down metropolitan areas such as, London, Salford, Newcastle, Leeds, and Glasgow, where many in the community have difficulty in gaining access to mainstream financial services, (Fuller, 2000). Examples of credit union industries at this stage are found not only in mainland Britain, but also in the former Eastern bloc nations, particularly Poland, and in the former Soviet Union, particularly in Russia and Ukraine. Legislation severely controls and constrains credit union growth in nascent industries. However, over time, they might develop through either a desire to establish larger credit unions, or by expanding the philosophy through creating many new unions. Once a particular critical size has been reached the industry moves into the second transition stage of development that represents a halfway stage between birth and maturity.

In the transition stage, the need to be efficient through economies of scale is to an extent forgone in favour of maintaining smallness as a credit union objective. Such unions inevitably hire paid employees, either full time or part-time. They also often have professional management, but retain volunteer directors. They may have more than a single product, and may offer a range of services such as life insurance, death benefits, or special savings facilities. Credit union membership tends to contain a social diversity, including the unemployed, but also middle class income earners. The New Zealand credit union industry provides a good example of such a transition industry, although as will be emphasised one currently on the verge of entry to the maturity stage. A further example is the industry in Ireland, although in this case recent setbacks in the area of information technology has resulted in it being firmly located in the transition stage.

Maturity, the final stage of development, has a more business-like philosophy. Examples include the credit union industries found in the US, Canada and Australia. Mature industries are characterised by large asset and member size, often achieved through a merger process. Professional staff operate multi-product services, which are often driven by state of the art information technology, including, for instance, debit, credit and smart cards, cheque book facilities, mortgages and telebanking. However, even at the mature stage the industry is still characterised by a predominance of volunteer directors.

Table 2 uses this typology to classify credit union industries in those countries where a credit union presence now exists.

Table 2
Geographic Location of Industry Types

Country/Region	No. of Credit Unions	Membership	Asset $million	Penetration[1] (%)
Mature Credit Unions				
United States	10,684	79,751,873	449,799	45.80
Canada	715	4,475,898	37,528	21.01
Australia	187	3,078,900	10,557	24.09
France	2,000	5,100,078	87,000	13.16
Korea	1,317	5,281,511	16,166	15.62
Transition Credit Unions				
Kenya	1,390	951,685	423	5.75
Hong Kong	36	58,047	218	1.14
ROC Taiwan	353	181,172	608	1.17
Sri Lanka	8,320	807,359	55	6.26
Singapore	16	41,657	139	2.46
Thailand	1268	1,977,186	8,628	4.62
Rep. of Ireland	535	2,600,000	7,504	102.46[2]
Fiji	38	15,000	7	2.85
New Zealand	96	134,097	143	10.82
Caribbean[3]	300	1,186,306	1268	33.48
Latin America[4]	1,375	3,604,476	2,343	1.91
Nascent Credit Unions				
Africa[5]	1,877	1,183,778	129	1.64
Asia[6]	2,640	495,966	77	0.3
Suriname	19	8,628	0.2	3.21
Tortola	1	226	0.07	4.08
Guyana	28	26,620	2	5.76
Poland	146	394,448	289	1.49
Venezuela	702	175,046	8	2.32
Russia	78	62.300	8	0.06
Ukraine	106	80,500	3	0.24
Great Britain	550	265,166	276	0.68

Source World Council of Credit Unions (2000). Data relates to end 1999.

[1]The penetration rate is calculated by dividing the total number of reported credit union members by the economically active population

[2]This high figure is due to the reporting of youth members and that some individuals belong to more than one credit union.

[3]The regional total for Caribbean countries does not include data for Suriname, Tortola and Guyana which are classed as nascent credit union countries.

[4]The regional total for Latin American countries does not include Venezuela, which is classed as a nascent credit union country.

[5]The regional total for Africa does not include Kenya, which is classed as a transition credit union country.

[6]The regional total for Asia does not include Korea, which is classed as a mature credit union country or Hong Kong, Singapore, Sri Lanka, ROC Taiwan and Thailand which are classed as transition credit union countries.

Factors of Influence

Whilst it is important to appreciate the key characteristics of each stage of development, it is of more significance to understand the interplay of factors which create a progression, or hindrance, between the different developmental stages. Additionally, the qualitative nature of many of the key factors affecting industry development needs to be appreciated. Hypothetically, five factors have been identified as the main ones affecting the progression of credit unions from one level to another. This illustrates their impact upon development issues within credit union industries. These factors are the nature of leadership, the complexion of trade associations, professionalisation, legislative support for change and innovation and technological advancement.

Situational Leadership

A key element determining whether a credit union industry is "born" (nascent), or advances to a higher level of development, is its leadership. Pioneers usually struggle against overwhelming odds and difficulties yet, as the extent of the credit union movement in particular countries testifies, they have often been successful in their task. Similarly, pioneers of mutual credit and savings societies in Germany and elsewhere were of such stock, as were later leaders worldwide. Credit union leaders have tended to have charisma, vision, commitment, deeply held religious beliefs emphasising service, and a strong missionary zeal.

Although of different religious persuasion, men and women such as: Herman Schulze-Delitzch a lawyer from Prussian Saxony; Frederic Raiffeisen a Rhinelander who founded savings societies among rural communities during the middle of the 19th century; Alphonse Desjardins who organised the first credit union in North America. Edward Filene an eminent credit union pioneer in the United States during the early twentieth century; Colin Smith in New Zealand and Nora Herlihy, Seamus MacEoin and Sean Forde who started a ginger group called the Credit Union Extension Service in Ireland have all shared strong leadership characteristics and undoubtedly helped give birth to fledgling movements. Without exception, each of these leaders displayed a good degree of imagination, humanitarianism, and empathy with their followers.

The following tribute, for instance, was paid to Colin Smith, a pioneer of the New Zealand credit union movement, by the President of the World Council of Credit Unions.

> "He more than anyone else could have taken a bow today for helping the New Zealand Credit Union League grow from infancy through to blooming adulthood. ……. . With selfless and humane commitment, Colin Smith served his fellow citizens throughout his life." (New Zealand Association of Credit Unions, Annual Report, 1986).

In a similar vein, President Roosevelt of the United States described Edward Filene, "father" of the American Movement, as a prophet.

However, credit union leadership appears to be situational, and it can be argued that the leadership style appropriate for nascent industry development requires modification when an industry seeks to move on to the transition or maturity phase. This point can be illustrated with respect to the credit union movement in the United States at the end of the First World War, when it was stagnating and failing to grow. What the industry needed was someone who had the vitality, managerial and organisational skills to get it out of its lethargy. Filene found a saviour in Roy Frederick Bergengren. Despite his lack of credit union knowledge or direct experience, Bergengren proved that he had the necessary qualities to succeed in transforming a small struggling movement into a vibrant and growing industry. More than anyone else, he established credit unions as a main player in American financial life.

However, twenty years later Bergengren himself fell victim to the power of situational leadership. At the time the United States credit union movement was undergoing a short-term crisis. Bergengren's friends, and other officials, concluded that although he was a superb propagandist, and inspirational leader, his organisational abilities had sometimes been proved to be lacking. They believed such skills were essential to rescue the movement from its particular difficulties. Consequently Bergengren made way for a successor in 1945. "The question seemed to be whether the movement's greatest need was good business management or inspiration." (Moody and Fite, 1984)

By the 1960s Thomas W Doig had led the American movement into its final stage, that of maturity.

The movement in Ireland, in its infancy, was also strongly influenced by situational leadership such as Herlihy, MacEoin and Forde

> "As she stood beside President de Valera as he signed into law the Credit Union Act 1966, Nora Herlihy was justly proud of the efforts of herself and the other pioneers. This was a legislative reform vital to the growth of the Irish credit union movement" (Quinn, 1999)

Undoubtedly the Irish movement has been a success with year on year increases in assets and members. However the driver for change has moved away from charismatic personalities, such as Nora Herlihy, towards the trade association the Irish League of Credit Unions. In 1998 the ILCU articulated its vision

> "Our vision is that credit unions will satisfy the economic and social needs of their members, with dignity and integrity, by offering, in the co-operative manner and on a not-for-profit basis full financial services for everyone who wishes to join"

However, the ILCU has been centre stage with respect to a number of setbacks which has rocked the Irish movement in recent years. For example Telecom Eireann Staff credit union, the largest credit union was expelled from the ILCU in a dispute about insurance payments part of which involves commission to the ILCU to fund ILCUtech, a specialised IT company. ILCUtech has proved a disastrous venture leading to losses in the millions for the Irish movement. These setbacks have led the Irish movement to falter as it has approached the crossover point between transition and maturity. It could be argued that it has been in part the failure of suitable leaders to replace Herlihy, MacEoin and Forde which has helped restrict Ireland's ability to capitalise on these early efforts, and move past the transition stage.

Again it may be argued that the failure of the movement in Great Britain to progress beyond a nascent type industry is the lack of charismatic personalities. Much of the inspiration for co-operative ideals in the nineteenth century can be traced to important developments in Great Britain, especially the experiments of Robert Owen at New Lanark and the Rochadale Pioneers formation of a co-operative store in 1884. However it was not until 1964 that the first credit union was established in Great Britain and only with the passage of the Credit Unions Act in 1979 was any significant headway made in terms of growth. While there are now some 550 credit unions most of these (80 per cent) have an asset base less than £1 million. Where progress has occurred it has tended to be driven by fragmented trade associations and local government initiatives. The movement is very much in need of a white knight to spearhead its development.

Even from such a cursory examination of past credit union leaders, it can be concluded that quality and style of leadership play a significant role in the development of credit union industries, both at their birth and in their further development. It is also the case that different leadership characteristics are required at different stages of sector advancement.

The Complexion of Trade Associations

The way in which credit unions organise themselves into trade associations is another factor that deserves scrutiny in order to appraise their effect on overall industry development and progression from one stage to another. As umbrella organisations for credit unions, trade associations represent their interests to government, and government agencies, including regulators. They also provide training, information technology, marketing advice, and other services to members. Membership of trade associations by credit unions is voluntary.

The ability of any given credit union industry to operate as a unified cohesive unit is a major determinant of whether it succeeds in gaining a secure position as a viable and progressive part of the financial services sector. The establishment of two credit union groups in Massachusetts in the United States during the first decade of the movement's history provides a cautionary illustration of the problems that can result from a lack of cohesion at the trade association level. In this example, despite rhetoric of co-operation, credit unions refused to work together. There were differences of opinion as to procedures and organisation, jealousy over who got the credit for achievements, and personality conflicts. The two national associations adopted a very competitive aggressive attitude, which contributed to the difficulties experienced by the American credit union movement by the end of the First World War.

The credit union industry in Great Britain is an example where significant fragmentation currently occurs at trade association level. There were four main trade organisations - ABCUL (Association of British Credit Unions), NATFED (National Federation of Credit Unions), SLCU (Scottish League of Credit Unions), and the AICU (Association of Independent Credit Unions). In 1999 NATFED went out of existence with most of its credit unions transferring to ABCUL or SLCU. It remains as part of this discussion as it helps identify the destructive effect that trade association fragmentation can have on the movement.[3]

The SLCU only operates in Scotland. Former officials of ABCUL formed SLCU in 1993 as a result of disagreement about the direction of ABCUL. These disaffected officials believed that ABCUL was placing too much emphasis on the growth of bigger employer based credit unions There was unhappiness with ABCUL's drive for economies of scale through larger membership, and the disaffected officials felt this growth emphasis negated the more idealist perspective of the credit union movement. Additionally, the officials responsible for the establishment of SLCU wanted a trade association that better reflected a Scottish identity. SLCU does not employ full time staff but operates purely through the help of volunteers and offers only basic services to its member credit unions. The SLCU now has 37 affiliated credit unions.

NATFED was oriented towards the disadvantaged, focussing on self-help, empowerment, and personal development. Credit unions, in their view, should be limited to a few hundred members, because much above this figure makes their single committee structure unworkable. However, as Berthoud and Hinton (1989) say "So far as is known, unions have never tried the growth of cell strategy of growing to a certain size, and then splitting into two." During the 1990's the NATFED suffered

[3] Subsequent to the demise of NATFED another credit union association, Access to Credit Unions for Everyone (ACE), was established and registered with the Registrar of Friendly Societies during the year 2000.

from significant fragmentation. In 1993 a number of credit unions broke away to form the Association of Independent Credit Unions. This breakaway was reported to have occurred because of acrimonious personality clashes amongst the officials. NATFED suffered further fragmentation in 1995. It had successfully penetrated Northern Ireland in the early part of the 1990s to offer services to the emerging Protestant based credit union movement. However, the NATFED credit unions in Northern Ireland subsequently broke away in mid 1995 to set up the (UFCU) Ulster Federation of Credit Unions. According to a UFCU spokesperson, the split from NATFED occurred because of a perception of lack of value for money. At the end of 1998, 107 credit unions in Great Britain were affiliated to NATFED, as indicated most of these credit unions have since transferred to other trade bodies.

The biggest mainland British trade organisation is ABCUL with 429 affiliated credit unions. It has an instrumental philosophy. Asset growth is viewed as the best way to ensure the credit union philosophy is spread. Berthoud and Hinton (1989) suggest that ABCUL puts most emphasis on developing workplace based credit unions as this represents a better way of expansion, although the authors claimed that in later years they somewhat modified their approach to embrace the spirit of community development amongst the poor.

Clearly philosophy, personalities, religion, policies and nationalism separate the organisations representing credit unions in Great Britain. This has meant that the mainland British movement in particular has not progressed significantly over the course of the intervening years. The British Registrar of Friendly Societies, and credit unions themselves, called for one unified national trade association. The 1996 ABCUL conference and AGM vigorously debated this point. One organisation would appear to make sense because it results in benefits arising from economies of scale. Additionally, it means that the industry has more political leverage and can speak with one voice. Whilst strong support for the idea has been expressed in principle, some speakers at the ABCUL conference were against a unitary organisation as they felt that in a deregulated economy, competition and choice should apply to umbrella type organisations. Furthermore, it was believed by detractors of the idea of a single trade body, that forcing mergers to achieve a unified trade organisation might be counter-productive, if not impossible to achieve. With the demise of NATFED there is now more hope that one strong trade association will emerge.

The chaotic and fragmented position of mainland British trade associations stands in marked contrast to the associations found, for example, in New Zealand. In New Zealand two trade associations represent the credit union industry, the dominant New Zealand Association of Credit Unions (NZACU), with 71members in 1999 and the Association of Manchester Unity Credit Unions (AMUCU) with 12 branches. A further 13 credit unions were unaffiliated (New Zealand Registrar, 2000). The asset size of all New Zealand credit unions in 1999 was NZ$ 430 million (1 NZ$ = 30 pence, 31:12:99) and the membership level was 134,097.

It should be noted that the NZACU accounts for 73% of credit unions, 67% of the membership and 74% of the total asset base. An indication of the role that could be played by a well functioning trade association can be demonstrated with reference to the services offered by New Zealand credit unions through NZACU. For example NZACU presently provides an ATM network, EFTPOS system; central bank/liquidity system; internet and telebanking; travellers cheques; foreign exchange; mortgages; and insurance (life/house/contents/fire). These electronic services on offer from NZACU will be explored further in the section dealing with information technology.

In 1960, a Credit Union League of Ireland was established to foster the growth of credit unions, and the League later became a member of CUNA. The League then evolved into the ILCU. The ILCU, as the umbrella body of the Irish credit union industry, maintains an all-Ireland dimension. The ILCU is a non-statutory body organised voluntarily from within the credit union movement. The principal objective of the ILCU is to promote, service and develop credit unions in Ireland. The ILCU, as part of its mission, seeks to contribute to developing higher standards of credit union management, operation and supervision, by advice and direction. This is achieved by it offering a central financial service providing loans and stand-by facilities to credit unions for such purposes as capital equipment purchase, and to ensure liquidity during peak business times. It offers insurance cover for affiliates, such as public indemnity, fire and burglary. The ILCU also operates a common fund that invests on behalf of, and in the interest of, all participating members. In addition, the League provides formal training for credit union officers, and supplies an extensive range of educational and promotional material. Affiliates pay 10 per cent of their income into an insurance scheme, the aim of which is to provide savings and loan protection. As part of the savings and protection scheme, each credit union must ensure that a call report is sent to the ILCU. Profits from this scheme are employed in funding the services the trade organisation provides to affiliates. The ILCU also issues guidance notes to credit unions, which deal with specific points which directors and supervisors are asked to consider.

Clearly the ILCU has been instrumental in propelling the Irish movement along the development path. However as indicated earlier the ILCU is currently at a defining moment. Recent problems raise some doubts as to the ability of the ILCU to continue to set the pace for credit union development in Ireland.

Professionalisation

The early development of credit unions in the nascent stage inevitably means volunteer staff run the movement. These staff run credit unions which are small asset size, are highly regulated with a tight common bond, serve the weaker members of society, offer single products, and exhibit high commitment to self-help (see Table 1). However, if the movement is to take root, there is a need for change in the management and governance of credit unions as individual entities.

It was clear, as early as 1920, that if co-operative credit was to become a significant force in the United States greater professionalism was essential. Both Filene and Bergengren recognised this fact. Professionalism, in a large part, signified the need for employment of paid staff. "Consequently over the years ….. credit unionism in the United States became more professionalised and less voluntaristic, more hard headed and practical and less idealistic." (Moody and Fite, 1984). Macpherson (1999) suggested that Doig’s appointment heralded the emergence of the managerial credit union, and was a key factor in the maturing of the United States credit union movement. Mature industries are characterised by professionalisation management (see Table 1). This is essential for dealing with a highly deregulated and competitive market driven environment, utilising advanced electronic technology for producing an ever-widening array of centralised products and services.

It is this concern about the lack of professionally qualified staff that prompts the credit union movement to set up education and training programmes to raise the level of expertise of both volunteers and employed staff. The development of the industry from one stage to the next still largely depends upon whether it can attract quality management for growth and survival in increasingly competitive and complex deregulated financial systems. Unfortunately, credit unions tend to pay relatively low salaries. A further problem is that even the training of directors and staff is often inhibited by the failure to draw upon universities and other educational establishments. According to Runcie (1969) this insularity in terms of professional development may reflect a desire to insulate credit unions from criticism which may serve to stimulate efficiency but, which might also undermine 'the faith' of a still largely voluntary movement.

However, growth and the complexity of products and services, in a highly technological world, inevitably means that director control diminishes as paid professional staff take over the operation of credit unions. The downside of this professionalism is that the highly personal nature of credit unions diminishes (Black and Duggar, 1981). Paid staff tend to see volunteers as enthusiastic 'amateurs' with all the imperfections associated with that word. First generation volunteers are totally committed and steeped in tradition, whereas second generation management tends to be recruited from outside the movement. Since paid managers see themselves as the professionals, there is a danger that they might not consider themselves totally accountable to a volunteer Board of Directors. It could be argued that the introduction of information technology has given professional staff greater power, as directors have tended to leave much of the decision making to them because of their ignorance of new technology.

A natural development for employed staff as the industry matures is to professionalise. For instance, a first step along this path is the formation of a management institute. Such an institute emerged in the 1940s in the United States in the shape of the National Association of Managing Directors, representing paid staff of state leagues. They wished to express their views on CUNA administration and policies by presenting resolutions to boards of directors although it should be noted that confrontation occurred with industry leaders who saw them as a threat to their leadership. Also in the United States, managers of credit unions organised themselves into the Credit Union Managers Society, later called the Credit Union Executives Society. An Association of State Credit Union supervisors was also formed to deal with the problems of State credit union supervisors and also with those of government supervisors at the State level.

Indications that the New Zealand credit union movement is close to maturity, is indicated by recent moves for professionalism of staff. The Institute of Credit Union Management was formed in New Zealand in 1994. Interestingly, an Austrailasian Institute of Credit Union Directors was formed in 1996, to cater for the needs of directors in both Australia and New Zealand. New Zealand credit union directors are not as yet paid for their services, although only by a very slim margin did the NZACU 2000 AGM reject payment for its directors.

No such initiatives have as yet come to the fore in either Ireland or Great Britain. Neither directors nor managers have established professional bodies. In the case of credit unions in Great Britain failure to establish a body or institute at least for managers can be of little surprise. Jones (1998) in a survey of credit unions in Great Britain estimated that while 78 per cent of work based credit unions have paid staff this percentage drops to only 10 percent for community credit unions. (There are approximately 450 community credit unions and 100 work-based credit unions in Great Britain). Where differences in professionalisation between the movement in Great Britain and Ireland can be witnessed is in the training provided to volunteers and managers. Both of the main trade bodies, ABCUL in Great Britain and ILCU in Ireland provide formal training at a credit union operational level. However the sophistication of training is much more advanced in Ireland. In conjunction with the Institute of Credit Co-operative Administration the ILCU provides specialist training for managers and other staff in management, finance, legal frameworks and the human dimension. In addition University College Cork offers a specialist Diploma in Credit Union Studies targeted in the main at credit union managers. This programme has recently (first intake September 2000) been extended to encompass a degree in Credit Union and Mutual Business Studies aimed at preparing the next generation of managers in Irish credit unions. It is to be expected that such initiatives will eventually contribute to a repositioning of the Irish movement within the mature stage of development.

Regulatory and Legislative Initiatives

Table 1 demonstrates that relative to the nascent stage essential traits of transition and mature industries are changes in the regulatory framework and common bond. In the transition stage there are minor shifts away from a tightly regulated legislative regime as well as a modicum of relaxation in common bond strictures. Mature industries take these traits a stage further, and are characterised by wide ranging deregulation and loose common bonds.

During the 1990s a feature of the British Credit Union industry was the complaint amongst activists that the Credit Union Act 1979 was too restrictive and was inhibiting credit union growth. In recognition of this, the Government laid before parliament proposals to give credit unions more freedom in the way they operate. These proposals were enacted in January 1996 and in summary the reforms provided credit unions with an opportunity to: widen their common bond (credit union membership was extended to employees or residents in a particular locality); and to increase membership and asset level ceilings (there was a relaxation of the limit on a member's shareholdings and loans)[4].

In 1998 a credit union taskforce came up with a series of further recommendations and HM Treasury published them in the form of a consultation document. The recommendations were to: permit credit unions to borrow from authorised institutions; allow interest-bearing (share) accounts; and additional basic services and charge fees; make the common bond requirements more flexible; remove the current 5,000-membership limit; and extend repayment periods for loans.

To date a number of these recommendations have been accepted and are expected to come into force in the form of legislative changes to the Credit Unions Act 1979 which are contained in Schedule 18 of the Financial Services and Markets Act 2000. It should be noted that while the Act came into force in the middle of 2001, the section relating to the legal requirements for credit unions would only come into force at a second stage

[4] For more details see Ferguson and McKillop (1997:b)

(mid-2002). Consequently, the new legal powers contained within the Financial Services and Markets Act 2000 cannot be used until 2002.

Until relatively recently the Registry of Friendly Societies was the regulatory body for UK credit unions, although in the 1980s only two people worked in the Registry directly on credit union business. From January 1, 1999 the Financial Services Authority (FSA) began to supply regulatory and other services under contract to a number of regulatory bodies including the Registry of Friendly Societies. For this purpose, the credit union staff of the Registry took up new posts working for the FSA with the credit union team much expanded from the position in the 1980s. One of more eagerly awaited developments by the FSA will be the establishment of a deposit insurance mechanism for credit unions (expected 2002).

These significant regulatory changes, and which are arguably consistent with a movement not at the nascent stage but in transition, have not as yet succeeded in propelling the movement in Great Britain into the next stage of development. A conducive legislative environment while necessary for credit union growth is clearly not a sufficient condition. Trade organisation fragmentation coupled with the lack of a credit union champion has mitigated against sustained development by credit unions in Great Britain. Clutton-Brock (1996), prior to many of the legislative changes of the late 1990s, succintly summarised the problems faced by the movement in Great Britain.

> "Whilst no conclusive research has as yet been undertaken, it is highly probable that lack of growth is not, as some would have us believe, due to too restrictive a common bond but rather to apathy on the part of the population itself, coupled with general ineffectiveness of the committee of management."

It is in the United States where the central role of legislation and regulation as a driver for change can perhaps best be seen. Changes in legislation and regulation have helped change the complexion of credit unions and enabled them to build up a mature profile. The Federal Credit Unions Act, passed in 1934 by the United States government, was described by Bergengren as "the greatest single step forward in the history of the credit union movement." (Moody and Fite, 1984) This Act enshrined the mission of credit unions as helping people who shared a common bond and who were of 'limited means'. Under this legislation, credit unions were recognised as co-operative, not-for-profit organisations and were exempt from Federal income tax because of their specific, limited purpose.

United States credit unions have travelled far since this original Act. Deregulation has profoundly affected common bond and fields of membership concepts, where greater legislative freedoms have underwritten the successful growth in membership and the rationalisation of the industry's structure through increased merger activity. Deregulation has equally created conditions whereby credit unions have been able to diversify their products and services. Additionally, deregulation has also freed United States credit unions from the strictures of imposed interest rate ceilings and replaced them with a market-based interest rate structure. The establishment in the 1970s of a Federal Deposit Insurance Fund further established the credentials of the United States industry as being mature (see Table 1).

The extent to which United States credit unions have matured can also be seen in the recent legal battles surrounding credit union fields of membership. United States banks claim that the common bond has become so diluted that it is now meaningless. Given their tax exemption, the bankers believe that credit unions have an unfair advantage and want to see more of a level playing field.

> " We believe that it is against the country's best interests, and unfair, to pass a law allowing big credit unions to expand almost without limit while leaving the tax burden on everyone else. The credit unions that have strayed from their original mission and have chosen to become full-service financial providers should play by the rules like those governing their tax paying competitors." (Oklahoma Bankers Association, 1998)

United States credit unions are firmly located in the mature stages of development. Even here, however, there are complaints about legislative constraints. In 1998, Congress amended the Credit Union Act. The legislation provided flexibility for further credit union expansion, including provisions for adding new employee groups. However, Theriault (2000) argues that with this flexibility came handcuffs with, for example, strict limits placed on the size of a federally insured credit union's business loan portfolio. In addition credit unions were obliged to adhere to minimum capital levels significantly higher than the requirement for banks and thrifts. This perception of banks having an unfair advantage may increasingly cause United States credit unions to consider the stage after maturity – conversion to a mutual savings banks. Merrick (2001) calculates that 16 credit unions have converted since 1995. He argues that although as yet it involves very few credit unions, interest in conversion is symptomatic of the fact that legislative and regulatory events have eroded the value of the credit union charter.

Evidence of the importance of updating legislation in promoting growth is also seen in New Zealand. Credit unions although first established in the 19th century did not significantly develop until the early 1960s. Another twenty odd years passed before their presence was acknowledged via the Friendly Societies and Credit Union (FSCU) Act of 1982. Successive governments have, however, failed to significantly update this statute, which it should be noted is itself based on United Kingdom legislation. The New Zealand Association of Credit Unions argues that the FSCU Act of 1982 is very much out of touch with modern practice. The NZACU views this as an impediment to growth, (NZACU, 2000a) although it is accepted that various governments have made ad hoc changes. For example, the current government raised the maximum deposit holding from $40,000 to $250,000 in late 2000. This large increase in the deposit limit has raised the credibility of New Zealand credit unions. Their credibility was further enhanced by the requirement to provide a share deposit insurance mechanism in the form of a trust deed operated by a major insurance company. As from 2001, all New Zealand credit unions operate under a trust deed. This ensures members' funds have first ranking security. In return credit unions must meet stringent prudential standards and controls.

Although the New Zealand movement is not as advanced as in the United States the paranoia that United States banks have about credit unions being direct competitors is being replicated in New Zealand (see for example Sibbald and McAlevey, forthcoming). This reaction may in itself be an indictor of the growth of New Zealand credit unions as they strive to enter the mature stage of development. As New Zealand banks perceived credit unions becoming a threat due to their increasingly 'mature' modus operandi the credit union movement in New Zealand in turn feared, with good reason, that the government would wilt under pressure from other finance institutions, and was using the raising of the deposit limit to $250,000 as a quid pro quo for taxing them. However, the government decided against subjecting them to paying tax although the decision is to be reviewed in three years (New Zealand Treasury, 2000).

A clear indicator of the advance of credit unions in Ireland, at least in legislative terms, can be witnessed with respect to the Credit Union Act (1997) which repealed the Credit Union Act (1966). The Act had a number of key provisions. One centred on a widening of the common bond (see Table 1). For example one common bond definition utilised was 'residing or being employed in a particular locality'. A second feature was that under Section 6(1)f of the 1997 Act, credit unions seeking registration must participate in an approved savings protection scheme. Section 46 of the Act provides that a credit union may incur expenditure by participating in a savings protection scheme approved by the Registrar. A third aspect was that Section 33 allows a credit union, subject to its rules, to borrow money on security or otherwise, and issue debentures. Total borrowing, excluding members' shares and deposits and any temporary bank loan, cannot exceed 50 per cent of aggregate shares and deposits. Finally subject to statutory constraints, a credit union may provide, as a principal or agent, additional services of a type considered by the Registrar to be of mutual benefit to its members. Such services would be other than those already provided for, such as loans, shares and acceptance of deposits.

In terms of legislative freedoms the United States movement is significantly in advance of the movements in Ireland, Great Britain and New Zealand. Recent changes in domestic legislation in the latter countries have, however, created conditions to foster accelerated growth. The legislative environment in Ireland and New Zealand is consistent with that of a movement in transition while the framework in Great Britain is in advance of its nascent growth stage. Relative to New Zealand and Ireland the movement in Great Britain suffers in that a deposit insurance mechanism is not yet in place and credit unions are also severely restricted in terms of the additional services that they are able to offer.

Technology

The increasing use of technology in the financial services sector has provided a boon for credit unions. New Zealand provides an excellent example of how technology influences an unstable industry; unstable in the sense that technology has played a key part in moving the industry to the summit of the transitional stage and perhaps even into the early stages of maturity. The NZACU (1997) argued "The need to remain competitive through increased and efficient use of technology in a technologically based industry is fundamental to our success".

In New Zealand no single credit union was large enough to provide high cost computer facilities on its own. What was required was a well-developed trade association with highly developed central services. Progress in NZ was often hampered, ironically due to the co-operative principle of one member one vote irrespective of size, in which small unions could halt the expansionist plans of their colleagues. The debate reached a particularly unedifying state in 1990, when the NZACU annual general meeting agreed on a mandatory requirement for its members to fund the development of a debit card. The requirement was withdrawn in 1993, after bitter contention, which resulted in a number of smaller credit unions refusing to pay the levy, and threatening to withdraw their membership. It came as a surprise in 1994, therefore, when the larger progressive credit unions managed to get the movement to sanction development of advanced computer technology through the separation of the governances of the NZACU membership and business services, becoming the first credit union movement in the world to do so. Membership of business services is voluntary, and only those contributing to its costs of development and operations can vote on relevant issues, albeit the two boards coordinate their activities. The Business Services Division was established in 1995 by ten large credit unions contributing $1.75 m in capital development. A problem faced by the NZACU was the need to have competent, but expensive, skilled staff. This was a major reason for shifting the NZACU head office from a provincial town to the largest city in order to try and capture the much larger pool of available expertise. Such recruitment difficulties were also found by mature industries such as Australia, Canada and the USA (MacPherson, 1999).

Entering the new millennium, the business services division currently provides to its capital note holders, now representing nearly half (46%) of NZACU, a range of diverse products. These products include central banking, first introduced on a limited scale in 1983, but now extending to liquidity support, revolving credit terms and on-call investments, overdraft facilities, mortgage lending, foreign cash, travellers cheques, insurance products and services such as loan protection, short term retirement schemes, 24 hour telephone banking, real-time ATM available world wide, Eftpos, and internet banking. This product profile provided by a well-organised association, on a centralised basis, is characteristic of a mature industry.[5]

The success of New Zealand credit unions in utilising technology to provide financial products and services is in stark contrast to the position in Ireland. In the mid 1990's five of Ireland's larger credit unions formed their own company CUtech to provide automated services for their members. The Irish League of Credit Unions (ILCU) fearing the emergence of a "two-speed" movement formed a subsidiary ILCUtech to take responsibility for ATM projects and also to knit the member unions' 33 different IT systems together into one integrated system to support the spread of ATM services with the ultimate objective being to enable electronic fund transfer. This project became known as ISIS and was financed by a levy on each credit union which equated to £20 per member payable in two tranches. Eventually 330 out of the then 536 credit unions supported the project, raising £22.5 million towards its then suggested cost of £40 million. It was anticipated that the new IT system would be in place by 2000. However, in July 2000 the project's anticipated cost had increased dramatically to £68 million. It also emerged that while some credit unions have paid the full £20 per member some have paid only the first tranche and it is calculated that a sum of approximately £10 million is still due from those credit unions which initially supported the project. Equally worryingly it transpired that the ILCU had used part (estimated to be £5.5 million) of the Savings Protection Scheme's reserve fund in order to finance the troubled ISIS project as well as £2.5 million from the ILCU's own general fund. Not surprisingly a number of credit unions, led by

[5] For more details of technological innovations in New Zealand as well as information on the separation of the governance of the NZACU membership and business services see NZACU (2000:a) and NZACU (2000:b).

Tullamore Credit Union one of the largest credit unions in Ireland, mobilised to publicly oppose the ISIS project. If their demands were not met these credit unions intimated that they would consider leaving the ILCU. In January 2001 the ILCU confirmed that the ISIS project had run out of funds, ILCUtech staff were put on protective notice and in essence the ISIS project was abandoned, a project on which £27 million was spent and nothing was achieved in return[6].

This IT debacle over the last five years has hindered the development of the Irish credit union movement. An integrated IT solution to the provision of financial services and products is no closer and the level of acrimony created has resulted in members at the April 2001 ILCU AGM voting to review the ILCU's structure and operation. In addition there is the continued threat of some larger credit unions opting to leave the ILCU. Successful IT solutions have propelled the New Zealand credit union movement to the verge of maturity while the IT experience in Ireland has ensured that the Irish movement at present remains rooted in the transition stage (see Table 1).

The situation in Great Britain is significantly less developed than that in either Ireland or New Zealand. At present a Working Group organised by the Association of British Credit Unions (ABCUL), the Co-operative Bank, the Royal Bank of Scotland and the British Banker's Association has been established to investigate the establishment of a Central Services Organisation for the credit union movement in Great Britain. The catalyst for this was the Treasury Credit Unions Task Force Report (1998) which highlighted the crucial contribution that central services organisations have made to the growth of credit unions.

At present little co-ordination exists between credit unions in Great Britain with respect to the implementation of IT in the provision of financial services and products. The Working Group report, an interim draft of which was published by ABCUL (April 2000), anticipates

[6] More details of the problems faced by the ISIS project may be found in online reports by Wall (2001) and Skelly (2001).

> “that the primary role of the central services organisation should be to provide business products and services in order to give credit unions the scale economies they need to provide a broad range of services to their members.”

Over a five-year period the Working Group sees four areas as priority for a central services organisation. First, the introduction of a credit union “current account” which for example would be accessible by plastic cards at cash machines and points-of-sale. Secondly a deposit-taking system for credit unions which would support payroll deduction from national employers who are unwilling to send payroll deductions to multiple credit unions. Thirdly a pooled investment facility which is essentially a central investment fund to promote credit union liquidity. Finally a central data processing system for credit unions which, among other aspects, would enable credit unions to serve each other’s members on a reciprocal basis.

The report of the working party is interim and in a best case scenario the expectation would be that even the more rudimentary aspects of this potential initiative is at least five years into the future. While a fully operational central services system would be consistent with a movement within the transition stage the fact that the planning process is still underway in Great Britain relegates the movement to the nascent stage of development.

Many of the proposed technological advancements for Ireland and Great Britain and the advancements that have recently occurred in New Zealand took place many years previous in the United States. For example, in the discussion on technological advancement emphasis has been placed on the role of technology in the provision of centralised financial services and products. In the United States the central services role is provided by corporate credit unions established decades earlier. Most natural person credit unions belong to a corporate credit union and maintain deposits there. At the start of 2000 there were 43 corporate credit unions. These institutions as well as serving as a bankers’ bank for credit unions, accepting deposits and lending to them when loan demand is high also provide their members with cheque clearing, automated clearing house processing and other services. In addition, the United States Central Credit Union was established in 1970 to provide wholesale investment, liquidity, custody and payment services to its members, (Good, 1996). Its members include the corporate credit unions and the state credit union leagues.

Today the technological sophistication of United States credit unions is very much on a par with that of retail banks and other financial institutions (see Emmons and Schmid, 2000). Indeed, for a mature industry such as in the United States the impact of technology has essentially been to further blur the difference between other retail financial institutions and United States credit unions. Lemmon (1995) suggests that United States credit unions are using technology to compete head-on with banks over a wide portfolio of products, to offer the best rates, lowest fees, maximum convenience, and the best service. There is recognition by United States credit unions that the key to a successful credit union and indeed a successful credit union movement is in using technology to establish multiple service relationships with customers in the marketing and sale of their products and services.

Conclusion

By grouping credit unions into different industry category types, the aim of this paper has been to deepen the analysis of credit union industries within a development framework. An effort has also been made to provide a clearer understanding of the dynamics of change and development within the heterogeneous reality of a world-wide credit union movement. An ideal-type industry typology provides a useful heuristic device by which it is easier to understand the complexities of credit union development. The use of such an industry typology to analyze key development issues within the world-wide credit union movement is productive in mapping out the probable future evolution of parts of the credit union movement.

However, emphasis in this paper on closer examination of the dynamics operating within the typology to gain insight into the complexities of credit union industry development confirms that – despite the explanatory usefulness of the original typology - there is no universal, deterministic blueprint for development. Whilst an examination of the influence of factors such as situational leadership, the complexion of trade associations, professionalisation, regulatory and legislative initiatives and technology, revealed a substantial commonality of experience, there are also significant differences in the impact of these factors in particular credit union industries. This lends support to the recognition of the existence of 'a variety of the species' in respect of development.

The point was made that a key element determining whether a credit union industry is nascent, or advances to a higher level of development, is its leadership. Leadership therefore proved, particularly at the early stages of development, an imperative ingredient to progression. In the United States, Ireland and New Zealand the contribution of historical leadership is universally recognised. In the case of Great Britain – where the industry can be categorised as nascent – no clear individual leader has emerged to drive development forward. This lack of individual leadership may be a reflection of multiple, fragmented trade associations or indeed a contributory factor to the existence of these numerous bodies.

Legislative and regulatory effects similarly demonstrate that credit union development is not mechanistic. For example, the legislative environment in the United States, New Zealand and Ireland are arguably consistent with the stage of credit union development in each of these countries. Great Britain in recent years has witnessed the passing of progressive legislation so that now the legislative and regulatory environment is significantly in advance of the actual developmental stage at which the British movement finds itself. In the United States, New Zealand and Ireland legislative change when it has occurred has been driven from the 'bottom up' by member credit unions. In contrast to this, the situation in Great Britain, where government has viewed credit unions as instruments of social policy, is a 'top down' approach which has resulted in a regulatory and legislative environment in advance of present needs.

As previously demonstrated technology as a key factor can significantly accelerate the movement of credit unions along the development path. It took about twenty years for the United States industry to progress from transition to maturity. In contrast, more sophisticated modern technology has moved New Zealand and Ireland close to maturity at a much faster pace. However technology in itself does not guarantee success. Both New Zealand and Ireland have recently implemented technologies which produce similar products and services. Interestingly, the marked success of technology application in New Zealand, contrasts sharply with the disaster befalling credit unions in Ireland. This again demonstrates the complexities of the typology of credit union development.

This analysis has demonstrated that the typology is a useful tool for development classification with the caveat that it is not a simple mechanistic tool. Rather, the typology has been enhanced by injecting a dynamic interpretation of key factors of influence. The usefulness and limitations of the typology is neatly encapsulated by the observation made by Rich (1992):

"In the final analysis, classification systems are judged not by the ease or neatness through which the organisations are grouped but by their utility and their ability to replicate reality. An organisational typology that does not adequately and recognisably reflect the world that it purports to categorise has little value, both in terms of usefulness and as a model of reality".

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