

Abstract
Investigating the Cost Performance of UK Credit Unions Using Radial and Non-Radial Efficiency Measures.

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This paper examines the relative efficiency of UK credit unions. Radial and nonradial measures of input cost efficiency plus associated scale efficiency measures are computed for a selection of input output specifications. Both measures highlighted that UK credit unions have considerable scope for efficiency gains. It was mooted that the documented high levels of inefficiency may be indicative of the fact that credit unions, based on clearly defined and non-overlapping common bonds, are not in competition with each other for market share. Credit unions were also highlighted as suffering from a considerable degree of scale inefficiency with the majority of scale inefficient credit unions subject to decreasing returns to scale. The latter aspect highlights that the UK Government's goal of larger credit unions must be accompanied by greater regulatory freedom if inefficiency is to be avoided. One of the advantages of computing nonradial measures is that an insight into potential over- or under-expenditure on specific inputs can be obtained through a comparison of the nonradial measure of efficiency with the associated radial measure. Two interesting findings emerged, the first that UK credit unions over-spend on dividend payments and the second that they under-spend on labour costs.

JEL classification G21

Keywords credit unions, radial, nonradial, and efficiency.