Abstract

Examination of economies of scale in credit unions: a New Zealand study

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Recent government pressure and aspirations within the industry itself to improve financial stability have seen credit unions pursue economies of scale to achieve this objective. This presented an opportunity to test the validity of this strategy. However this study is uncommon, as it utilized the credit union population as the unit of analysis, rather than a sample, prevalent in other research. As a consequence this overcomes difficulties associated with multiple testings, and other statistical problems present in some other previous studies. By drawing upon two measures of operational efficiency, viz. operating costs to income, and operating costs to total assets, we found inconclusive evidence of scale economies. Whilst clear efficiency improvement occurred in moving from small to medium sized organisations, less compelling was the evidence of economies of scale in larger credit unions. Although we followed a conventional cross-sectional methodology by examining performance at a moment in time, the study also adopted a longitudinal case study approach, by examining over time the efficiency of a large credit union. Finally, the measure used, inclusion or exclusion of outliers, and the operational efficiency ratio chosen, all effect the outcome, and either showed evidence of economies or diseconomies, of scale.