

An Industry Approach to Classifying Credit Union Development

by

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Abstract

Classifying credit union industry types as Mature, Transition or Nascent provides a useful heuristic device by which to better understand growth and development issues facing the worldwide credit union movement. By defining the key attributes of each industry type an evolutionary linkage can be established between Transition and Mature industries, where Mature industries provide a demonstration of the likely development path for Transition industries. The importance of Nascent industries to the future growth of the credit union movement makes this industry type of particular importance. Use of an industry type classification provides a platform to better explore the economic and social significance of credit unions worldwide.

Introduction

From its origins in 19th century Europe, the credit union movement has become a worldwide phenomenon. In excess of 89 million people in 90 nations now belong to a credit union and, in aggregate terms, the assets of credit unions worldwide are calculated at \$379 billion. (World Council of Credit Unions, 1996) The development of this worldwide credit union movement has not though proceeded upon a single universal blueprint. This is not to deny that the process of diffusion has been historically strong between Europe and North America and, latterly, between North America and the developing world. Such a diffusion of credit union ideals and organisation principles is consistent with a value driven movement, which believes an important aspect of its mission is to achieve worldwide coverage. The descriptive reality of this worldwide credit union movement as it currently exists is a complex one and even a cursory examination of the range of credit union activity reveals enormous diversity, both within and between different credit union industries. There is, literally, a world of difference between a billion dollar asset credit union in North America and one with a few hundred dollars of assets in the developing world. By grouping credit unions into different industry category types, the aim of this paper is to better locate credit union industries within a development framework. In addition an effort is made to uncover key defining features within different industry types and to provide a clearer understanding of the dynamics of change and development within the heterogeneous reality of a worldwide 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. It is our contention that the use of such an industry typology to analyse key development

issues within the worldwide credit union movement is productive in mapping out the probable future strategic evolution of large parts of the credit union movement.

Typology as a Methodology

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. (see Levi, 1997) The benefits of a typology include, for instance, easier recognition of fundamental structure and relationships (McKinney,1966) and the provision of a platform for theory development (Haas et al. 1996). 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). As Rich cautions, the usefulness of typology lies in the following;

' 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'. (Rich, 1992)

Constructing models of reality is of course a vexed issue. The formulation of 'ideal-type constructs' as a methodological approach is well known as a device to overcome the intrusion of value presuppositions (Weber, 1949). In understanding the 'reality' of human health for instance, the formulation of an ideal type construct of a perfectly healthy human being can prove to be a powerful tool in shedding light on the descriptive reality of human health. In other words, is it legitimate to ask 'if human beings were capable of being perfectly healthy what would they look like' and then to apply the resulting model

to the medical well being of human beings in the real world? In considering the complexities of credit union development on a worldwide basis the start point, legitimately we believe, is a conjectural one that says 'if groupings of credit unions in diverse geographical areas are thought of as industries what does this look like?' At this stage, the usefulness of such an ideal construct in shedding light on the descriptive reality of credit union development should be put to one side until our typology has been elaborated. Before considering the detail of our development typology, it is also necessary to consider the language contained in our typology where the term 'industry' is used as the basis for classification. For many in the credit union movement a typology of credit unions based on a classification of 'industries' might prove a contentious matter. For a voluntary, self-help 'movement' the use of the word 'industry' as a descriptor might actual offend since this word has many connotations depending upon the context in which it is used. One obvious limitation of typology as a methodology lies precisely in this use of everyday language, particularly where words have particular value connotations. In defining credit union 'industries', use is being made of a traditional economic concept of the word 'industry'. In other words, across an economy a multitude of firms produce products and services. Where there is a cross elasticity of demand and a high substitutability of products then an industry can be identified. Savings and loans, the core activities of credit unions, are provided by many firms and are easily substitutable.

Mature Credit Union Industries

In order to examine the attributes outlined for a mature industry, the starting point is to look in some detail at the obvious example of the credit union industry in the United States. The de-regulation of US depository institutions in 1977 had a profound effect on

the nature of credit unions, both in terms of the kinds of products and services they could provide and in terms of their purpose and management as financial institutions. The post deregulation US experience therefore provides a 'demonstration effect' of a credit union industry operating at a mature stage.

Despite the growth experienced before de-regulation, the US credit union industry still remained small compared with other depository institutions. It was characterised by a large proportion of small institutions and few large ones (Pearce, 1984). Also, traditionally, the US industry has been dominated by occupational credit unions, most of them being Federal ones. The stability of the sponsoring occupational organisation, and in most cases the financial aid provided by it, contributed to the growth in the scale of this type of credit union in the US with their average size higher than for other types.

(Brockschmidt, 1977).

The main effect of de-regulation of US credit unions was the introduction of a less restrictive interpretation of the common bond requirement for membership thereby increasing potential membership and creating conditions for mergers. Since de-regulation in 1977, the US credit union industry has undergone a period of consolidation. The net effect of this industry concentration has been a reduction in the number of individual credit unions. Those with assets below \$2 million have declined from over 65% in 1980 to 38% in 1992 (Kaushik and Lopez, 1994). Equally, for credit unions in the asset category above \$5 million, there has been consistent growth both in absolute size and in relative terms. It is projected that this trend towards increased concentration is likely to continue in the future.

Since deregulation, membership has grown consistently in the US, with some 25 percent of the population now belonging to a credit union. Widening the scope of common bonds, making potential qualification for membership broader, has played an important role in membership growth. Equally, the attractiveness of US credit unions to consumers has been increased by liberalisation of the products and services that they can offer. Deregulation has enlarged the lending powers of US credit unions to include mortgages and credit card operations. Similarly, improvements in their depository offerings, including cheque book accounts, have also helped credit unions operate more effectively in meeting a fuller range of their members financial needs in a deregulated, competitive financial services environment.

Additionally, the management of credit unions in the US has undergone 'professionalisation' as would be expected given the challenges of operating in a new deregulated environment. That the purely voluntary ethos has given way to a new breed of manager may not be entirely universal, but the US credit union industry is not based exclusively on the principles of a voluntary movement.

The defining characteristic of credit unions in a mature industry within our typology is the greater emphasis placed upon them as efficient providers of financial services. The US credit union industry displays a good fit with a mature classification. In other words, although still member-owned financial institutions, 'business principles' of growth and efficiency strongly prevail to inform the strategy and operation of credit unions in the US. The legal and regulatory framework in the US obviously gives credit unions greater freedoms to operate in a more overtly business orientated way. Deregulation and the

loosening of traditional credit union common bonds has therefore provided a strong impetus towards membership growth and, in consequence, the further development of an already large industry asset base.

The existence of features such as credit union central services and the professionalisation of management also constitute defining characteristics of credit union maturity which, again, is well illustrated in the US example. Given the sophistication of a deregulated financial services environment, competing more effectively with mainstream financial institutions is obligatory if credit unions are to meet member expectations about the quality and range of products and services they offer. With moves towards greater diversification of products and services to members, credit unions, in a mature industry, increasingly take on more of the features of mainstream financial institutions, with a fear emerging that they might ultimately, at some point in the future, converge with these mainstream institutions.

Although still the subject of ideological debate in the US, the discernible features of a greater business orientation by credit unions in a mature industry can nevertheless be seen to relate to changes in their institutional nature of credit unions; to the provision of products and services based more on market rate structures; and to the more sophisticated financial management of credit union operations. This first point, the changed institutional nature of credit unions in a mature industry, can be described in fairly straight forward terms. Emphasis, for instance, is placed on 'visionary leadership' with greater use made of the skills of professional full time salaried staff. Membership of credit unions is deliberately sought from a more diverse base with an overriding aim to

encourage growth. 'Business orientation' by definition also includes greater emphasis on economic viability and encourages the goal of long term financial sustainability for any given credit union. Equally, it discourages the automatic proliferation of credit unions that have no long term economic sustainability.

Changes in the products and services offered by credit unions similarly provide a visible expression of maturity. Providing products and services based on market rate structures means that in a mature industry there is an intent to provide real positive rates of interest that are competitive with local financial markets. Equally, there is an aim that rates of interest should accurately reflect the risk of the activity that is being financed. By widening their product portfolios, credit unions are operating with an underlying belief that product diversification is what members themselves want and that greater business orientation is therefore to their ultimate benefit.

A rigorous approach to the financial management of credit unions is yet a third aspect of the greater business orientation associated with a mature industry. Better financial controls and disciplines are therefore emphasised in day to day operations. Improving their capital adequacy is an important aim which underwrites the emphasis placed on the economic viability of credit unions and their long term sustainability. The creation of bad debt provisions is similarly regarded as a further feature which helps to ensure the asset quality of credit unions, thereby contributing to continued long term financial viability and sustainability.

Defining maturity, therefore, involves consideration of multiple factors, so that placing

any particular credit union industry in the mature category is of course a matter of judgement. This judgement is based upon the weight of ideal-type industry features measured against what can be sustained as 'mature' attributes in the real world. The weight of evidence supports the view that the US credit union industry should be classified as mature.

Our consideration of the US mature industry would be incomplete without some evaluation of the impact of 'maturity' on changing the philosophy and organisational characteristics of credit unions. Credit unions, given their strong economic and social ideals, have traditionally targeted themselves at disadvantaged sections of society. In the mature US industry, the membership basis increasingly comprises of affluent middle income groups. With the impetus towards further membership growth, the intention is to incorporate new members from diverse sectors of the population. The new realities facing US credit unions have been neatly summarised by Mason and Lollar (1986);

'...the increasing sophistication of the credit union member base, attendant demands for more and varied services, and increased competition from other financial institutions all suggest the need for carefully developed competitive strategies as a key to survival and growth during the next decade. Such market driven strategies will require credit union executives to assume more of a role in strategy development and implementation than ever before'

Conventional wisdom on development suggests that clarifying and ranking governing values is a pre-requisite to the formulation and implementation of any future strategy. Whether credit unions should in fact be market driven is a question that raises interesting value implications for them. It is possible to counterpose their traditional values with more market driven ones and consider the effect of these on the core activities of savings

and loans. What is the effect therefore of market driven interest rates, market driven loan criteria and market based definitions of share capital?

Ideally credit union behaviour is supposed to be neutral between savers and borrowers, although sometimes loan interest rates tend to favour the borrower being below market rates and negative in real terms. Making loan rates competitive with local financial markets would lead to the institution of real positive rates of interest. At the same time, market driven rates would also more accurately reflect the risk of the activity that is being financed. Similarly, criteria for making loans are altered with a market driven approach. Traditionally, credit union loans have been made to members based on a multiple of savings, whereas in a more market driven approach loans are usually made on ability to repay, character and the borrower's own equity in a particular project. Changing the fundamental characteristics of a credit union can also be seen in altering its concept of share capital. Traditionally, there has been a blurred distinction between share capital (investment) and savings. A market driven approach would strive to maintain share value and build member capital and stress more prominently the ownership dimension of share capital.

A more strategic market driven approach has therefore a profound effect on the values surrounding core business activities. Further effects are equally evident once credit unions enter competitive financial mainstream markets. They have prided themselves on their democratic structures and the role of voluntarism in their affairs. The implication from the comments by Mason and Lollar that greater primacy should be given to the

professionalism of credit union executives in determining future strategy poses interesting dilemmas for 'member democracy'. At the heart of this dilemma is the growth in the scale and complexity of credit union operations. 'Autonomous' credit unions are not involved alone in the operation of their business activities. In reality other agencies such as credit union central services and trade organisations create a web of interdependences, where the role of professional officials assumes increased importance. In other words, the growth of a credit union industry necessarily involves a degree of bureaucratization which can create tensions with the democratic ideal. Complexity requires increased levels of expertise which cannot be automatically assumed to exist amongst volunteers, so that increasingly the management of a credit union becomes the province of the professional.

In referring to competitive strategies as the key to survival and growth, Mason and Lollar are indicating that competitive strategy for credit unions involves the management of risk in a market environment. Often they have shown themselves to have inadequate capital positions. Adequate capital (reserves and undivided earnings) is a pre-requisite condition for operating in the risky environment of mainstream financial services. Tightening levels of financial control, including the management of bad debt, is an additional feature that might be expected. Additionally, tightening of security requirements on loans would help avoid risk and protect member capital.

Following this discussion of mature credit union industries, using the United States as a case study example, it is possible to summarise in Table 1 the key attributes of mature industries within our typology. This classification helps towards answering our earlier

rhetorical question of 'if groupings of credit unions in diverse geographical areas were thought of as 'industries' what would this look like?' and provides the basis for our 'mature' industry type.

Table 1 Attributes of a Mature Industry

Large Asset Size
Deregulation
Loose Common Bond
Competitive Environment
Electronic Technology Environment
Well Organised, Progressive Trade Organisations
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 of a Credit Union
Rigorous Financial Management of Operations
Deposit Insurance Mechanism Established

Transition Industries

Within a transition industry we believe that both the 'economic determinism' of growth in assets and a changing economic environment play a significant role in the process of causing credit unions to seek a more business orientated approach. In other words, the seeds of change within credit unions are sown much earlier than at the mature stage. The demonstration effect of what is happening in a mature credit union industry may lend support for protagonists of a market driven approach. However, the dynamics of asset growth and the changing economic environment - particularly if it encourages deregulation - which trigger the need for, and make possible, a business orientated approach are played out in the transition stage of a credit union industry's development.

The United Kingdom credit union industry provides a good example of a transition industry type. The UK credit union industry, over this last decade, has experienced significant growth. Evidence of this can be seen in the increase in credit union numbers, their membership and the size of their asset base. (At the end of 1994 there were 614 credit unions in the UK, between them they had 350,000 members and a total asset base of £250 million. Although the first credit union was established in the early 1960's, most commentators would argue that it was not until the passage of the 1979 Credit Union Act that the movement had in place a legislative framework within which to develop. Consequently, the above statistics clearly mark out the UK movement as 'young, vibrant and high growth'. The larger asset sized credit unions now evident in the UK have proved to be more cost efficient as a result of economies of scale (McKillop et al, 1995) and it is the larger credit unions that most need new freedoms to encourage their further growth. (Ferguson and McKillop 1997)

Whilst the UK industry has grown at pace, and continues to offer a low cost financial service within a relatively low risk environment, criticism of the current legislative framework under which it operates is mounting and pressure for a more favourable legislative framework is in evidence. Although there has been recent relaxation of the definition of the common bond, the constraints placed upon loan volume and loan repayment period and the limit governing a member's maximum shareholding, further legislative reform is considered essential. Increased relaxation of the common bond is an important consideration in this transition industry since restrictive common bonds can hinder the growth of the UK credit union industry. Therefore greater flexibility in

defining common bonds and the removal of membership ceilings for credit unions seems appropriate at this stage of development in the UK industry. Flexibility could be enhanced by multiple common bonds within a broader fields-of-membership as the basis for credit union organisation. These features have been recognised as being at the heart of the high membership growth patterns achieved in the United States (Burger and Dacin, 1991). Flexibility of common bond provisions might also extend to liberalising the ease with which credit unions can merge. Multiple common bonds, fields-of-membership and better mechanisms for mergers are seen as lending major support to the underlying potential for future growth currently exhibited in the UK transition industry.

New freedoms permitting credit unions to offer a wider range of products is now appropriate, particularly in the case of the larger credit unions where the asset base is in excess of £1 million. Providing increased scope for product diversification through changes in legislation will ensure that the services of credit unions are better suited to a growing and more diverse membership in the future. With the demise of mutuality in the building societies sector, the larger credit unions have an opportunity to provide housing loans on a basis that differs from commercial institutions. For a large number of people, such as temporary workers and contract workers, who currently find it difficult to secure mortgages from commercial institutions, credit unions could represent an important source of housing finance. The provision of mortgage products is also likely to prove particularly attractive to those credit unions with a middle income membership and the ability to provide mortgages would further boost membership growth in these credit unions. The freedom to provide mortgages would also prove attractive to the larger employer based credit unions and would similarly act as a boost to further membership

growth. For mortgages to be offered by credit unions, the current interest rate ceiling and length of loan restrictions would have to be removed.

The ability of credit unions to provide loans for small business start up and to support small businesses generally is an innovation of some importance. An increased role for credit unions in fostering community development by supporting economic regeneration through support for small businesses is in keeping with the economic and social philosophy of credit unions as instruments of self-help, particularly in disadvantaged communities. New freedoms to on lend to groups or small firms would require the demise of interest rate ceilings and length of loan restrictions.

Greater involvement in money transmission services in the form of cheque books, credit cards and debit cards is a further product innovation that UK credit unions may wish to develop in the future. The provision of on-line banking facilities and ATMs are features that would be welcomed by existing and potential credit union members. For many smaller credit unions which would not envisage participation in these innovations, there is still a need to provide a basic bill paying service for members. In areas, such as urban housing estates and rural villages, where traditional bill paying facilities, such as post offices, have disappeared during the current recession, providing a basic bill paying service is a particularly pressing need. Legislation would be required to sanction the move into such new services.

Any broadening of the common bond and a fields-of-membership approach will have an effect on the product portfolios of credit unions by creating pressure for greater product

diversification within core loans and savings products. This will result in credit unions being able to engage more in niche marketing by targeting their services better for instance to young people, the retired or other specific groups. One likely consequence of such changes would be credit unions would have the ability to offer their products based more on a market rate structure rather than, as at present, based purely upon an interest rate ceiling.

Changes to the product offerings of credit unions would require some fundamental changes in business practice. For instance, the move towards more market based interest rates on the assets side of their business would have to be matched on the liabilities side with variable rates for savings products and access to the wholesale money markets. Also, practices such as operating accounts which give instant access may be complemented by other term deposits which reward savers with better interest rates by foregoing the right to instant access.

Further growth, product innovation and professionalism of credit union services are in turn heavily contingent upon the creation of central services for UK credit unions. Here, two features are imperatives if the UK industry is to sustain its future development potential, namely the creation of a central finance facility and a deposit insurance mechanism. Each of these is an important building block in strengthening the 'credit union system' and are essential pre-requisites in moving towards a mature industry status.

The importance of a central finance facility for UK credit unions centres on the fact that it provides member credit unions with a secure depository for their surplus funds; it

provides investment opportunities for them; and it provides a source of liquidity support for credit unions when needed. The facility could be operated as a department of the main trade body, or it could be established as a separate identity within the movement. The main advantage of the central finance facility is that it establishes a strong financial system for the country's credit unions. Through the introduction of a well capitalised facility, the national industry is better able to absorb loan losses and cope with economic fluctuations. This is because investment and loan risks are shared by all participating credit unions.

The UK credit union industry has an urgent requirement to put in place a shareholder protection scheme to which all credit unions must belong. The purpose of a shareholder protection scheme is to safeguard both credit unions at an individual level as well as the industry as a whole. For the UK credit union industry to seek enhanced flexibility and freedoms, with obvious implications for its risk profile, without having in place a shareholder insurance mechanism is incongruous. Although under section 15(1) of the 1979 Act credit unions are required to be insured against loss to their members from fraud, such insurance does not cover all forms of loss, notably failure of administration or failure of borrowers to repay their loans. The importance of a shareholder insurance scheme centres not just on the fact that insurance protects the shareholders of individual credit unions but more crucially that it eliminates the possibility of contagious runs. Without an insurance scheme there is always an incentive for shareholders to withdraw funds at the first hint of financial difficulty, be it real or imaginary. Furthermore if a run on one credit union shakes shareholders' confidence in the industry as a whole this may result in previously solid and solvent credit unions being driven into insolvency.

As a transition industry, a window of opportunity exists for the high growth UK industry and the mix of features described in our typology for this industry type reveal the interplay of forces required for future development. Of significance is the role undertaken by trade bodies as drivers of change. In the UK, the multiplicity of trade bodies representing the credit union industry is a weakness (Ferguson and McKillop, 1997). In any move towards maturity, there is a strong case for the need to evolve a single trade body to represent the interests of the industry and to facilitate the further development of the industry through the better provision of a range of central services.

Given the discussion of the UK transition industry, the key attributes of such a transition industry type can now be summarised in Table 2.

Table 2 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

Nascent Industries

Having considered in some detail the attributes of both mature and transition industries it is necessary to briefly outline the characteristics defined in our typology of nascent credit union industries. In the developing countries of Africa and the former Soviet Bloc, the need for self-help organisations is well recognised and their importance is highly

significant. Recent historical events have added to this potential. Countries such as Russia, China and those in Central and Eastern Europe offer vast development potential for credit unions. Credit unions are not merely financial institutions but also, importantly, agencies with a strong social purpose. In nascent industries, economic development is seen as inseparable from the empowerment of individuals and the emergence of democratic institutions.

The credit union movement, through the auspices of the World Council of Credit Unions (WOCCU) is active in promoting credit unions in developing economies. In such developing economies, it is estimated that there are more than 36,000 credit unions with over \$3.4 billion in total assets serving 11.5 million member owners. Credit union development strategy primarily focuses on the mobilisation of local savings as opposed to reliance on outside funding. By generating local resources, credit unions have become one of the most important sources of financing for small-scale entrepreneurs in developing countries.

The traditional savings and loans product typifies credit unions in a transition industry. In addition their asset base tends to be relatively small scale. An immediate concern is to seek legal recognition of credit unions and to establish an appropriate regulatory framework. The essential features of a nascent industry, and the difficulties encountered in establishing credit unions, can be explored through consideration of the situation in the newly independent Ukraine, which was formerly part of the Soviet bloc.

The volatility of post reform Ukraine demonstrates well the difficulties involved in the creation of a nascent credit union industry in the context of an ex-communist society. With independence in 1991, Ukraine immediately experienced traumatic economic conditions. As part of the Soviet centralised system, the Ukrainian economy was more closely linked than those of the other Soviet republics, which made Ukraine particularly dependent upon the Russian military-industrial complex. Post independence trauma was evidenced by a sharp decline in output of both industrial and consumer goods and a considerable increase in the rate of poverty.

The traditional expectation amongst the citizens of Ukraine has been that the State is a provider guaranteeing at least a subsistence level of financial security. Indeed, Ukraine inherited one of the worlds most elaborate welfare systems. In 1992, half the population received cash benefits such as retirement, disability, family supplements and student benefits - although it is now clear that Ukraine does not have the economic resources to maintain this level of social expenditure. Changing the dependency culture demonstrated by its citizens towards the State is not going to occur overnight. The difficulties experienced by the reform process itself have led to some disillusionment with it amongst segments of the Ukrainian population, since the basic security traditionally afforded to citizens has been undermined. Voluntary, self-help offers a way forward, but, with no direct experience of its benefits, there is a need to appreciate that it will not automatically take root in Ukrainian society.

Tangible support for a Ukrainian credit union industry, in the form of support programmes by WOCCU and the Canadian Co-operative Association, commenced in

1993. By 1994, with 20 credit unions as founding members, the Ukrainian National Association of Savings and Credit Unions (UNASCU) was established and encompassed 18 regions of the Ukraine. Recognising the lack of financial stability in the Ukraine, the imperfections of the basic credit union legislation and the absence of any real supervisory system, the initial aim of UNASCU was to strengthen the industry infrastructure rather than seek growth of membership. Consequently, the aims set includes the creation of more comprehensive credit union legislation and the establishment of sound business procedures and practices. UNASCU also places a high priority upon the educational development of credit union personnel and management. The credit union industry in Ukraine is still at an infant stage, but by 1996 the number of credit unions had increased to 52, membership had reached 17,680 and the total assets of the industry were \$920,958. (WOCCU, 1996)

Most of the features discussed for the Ukrainian credit union industry help to inform what we identify as the key attributes of a nascent credit union industry.

Table 3 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

Industry Type Classification Applied to the Worldwide Credit Union Movement

Having outlined the key features of the various industry types in our classification, Table 4 provides an overview of its application to the worldwide credit union movement where country specific credit union industries are classified as either mature, transition or nascent.

Table 4: Geographic Location of Industry Types

Country/Region	No. of Credit Unions	Membership	Asset \$million	Penetration (%)
Mature Credit Unions				
United States	10,569	63,788,693	300,288	47.40
Canada	905	4,105,738	32,619	27.50
Australia	239	2,883,427	10,798	32.02
France	2,000	5,100,078	87,000	13.16
Korea	1,671	4,711,058	19,688	22.49
Transition Credit Unions				
Kenya	1,229	934,056	375	6.64
Hong Kong	37	51,317	141	1.62
ROC Taiwan	366	174,920	643	1.97
Singapore	16	41,657	139	2.46
Thailand	987	1,202,732	103	3.51
Ireland	532	1,935,889	4,679	14.6
Great Britain	384	146,180	138	0.75
Fiji	66	11,384	11	4.23
New Zealand	115	185,374	252	10.82
Caribbean*	352	1,053,796	820	38.67
Latin America**	1,819	4,893,291	8,025	3.15
Nascent Credit Unions				
Africa***	3,249	1,533,210	106	1.75
Asia****	12,477	2,843,748	371	1.08
Suriname	25	9,228	0.3	3.52
Tortola	1	153	0.04	1.8
Guyana	34	20,262	3	6.1
Poland	168	154,638	79	0.89
Venezuela	702	175,046	8	2.32
Russia	34	13,480	3	0.02
Ukraine	52	17,680	0.9	0.07

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

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

***The regional total for Africa does not include Kenya, which is classed as a transition credit union industry.

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

The data detailed in Table 4 refers specifically to those credit unions affiliated to the World Council of Credit Unions. Although the World Council of Credit Unions does not embrace all credit unions the information presented in Table 4 provides a relatively comprehensive geographic classification from the perspective of the documented typology. Table 4 reveals that there are only five countries where the credit union can truly be said to have achieved a mature status. In each of these countries the credit union movement is a dominating force in the provision of financial services and has achieved significant penetration of the working age population. Information on this latter statistic is given in the final column of Table 4.

Many more countries are characterised with movements viewed to be in the transition stage. As well as country specific information aggregate statistics have been provided for the countries of the Caribbean and Latin America. This proved necessary given the large number of countries in both regions, which could be categorised as being in the transition phase. In the case of the Caribbean 16 countries fall into the transition category while for Latin America the comparable figure is 14. Given that many of these countries, particularly those in the Caribbean are small the expectation might have been that there would be a preponderance of nascent movements. That this is not the case centres on the fact that the mature movement in the US has taken a responsibility upon itself to encourage and promote the credit union movement in neighbouring countries.

The bottom section of Table 4 identifies those countries viewed to be in the nascent stage. Also detailed are the regions of Asia and Africa where significant sways of the movement

are still at a nascent stage of development. In Asia, 8 countries are classified in this manner while in Africa the number is 28. In each instance the movement in individual countries can be said to be highly fragmented and, as yet has failed to generate awareness among the general population.

Conclusion

The development of credit unions will be different depending upon particular historical, economic, social and political contexts. However, thinking in terms of different credit union industry types allows us to consider in a focused way the issues affecting the development of credit unions in different parts of the world. In devising a typology of industry types, the reader has to judge whether this 'adequately and recognisably reflects the world which it purports to categorise.' Obviously our typology contains a priori assumptions which need to be accepted for the classification system of credit unions to be useful. One such assumption that is implicit in our construct is that of an evolutionary development path. Notwithstanding historically specific factors, there is an assumption that credit union industries will progress from nascent, through the transition phase onto the mature industry type. Of course, the logic of this presents a further dimension, namely that a mature industry may in fact 'transform' into another type, for instance by becoming a 'for profit' financial services institution.

Our typology also contains an assumption concerning 'economic determinism' in so far as the asset size of credit unions is seen as a major determinant of credit union behaviour. The large asset size of credit unions in a mature industry, particularly when they are located in the context of a competitive financial services sector dictates a sophisticated

approach to their business operations. In doing so, credit unions in mature credit union industries provide a demonstration effect for credit unions in a transition industry. In the case of nascent credit union industries, where nature of their market environment maybe far removed from highly developed financial market environments, the pressure to emulate is lessened and the emphasis is more on taking root and establishing a sound foundation.

The final point that should be stressed is that our typology is meant to be a heuristic device to aid the interpretation of credit union development throughout the world. Each credit union industry type is as valuable as any other and no value connotations should be read into our classification. No typology can explain the complexity of such a diverse, complex movement such as the credit union movement, but it may contribute one perspective, which can contribute to our understanding of current and future credit union development.

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