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Governance and Performance in Credit Unions in Jamaica

Trust in Cooperatives

- The relationship between Cooperative Board of Directors, Management and Members and the impact on the Performance of Credit Unions in Jamaica.



INTRODUCTION

- The principles and the cooperative governance mechanisms contribute to the internal self regulating aspect of cooperatives.
- The cooperative ideology of duality of entrepreneurship and association and self help setsteh credit union apart as a unique business model with alternate opportunities for funding



INTRODUCTION

Cooperatives are guided by Principles developed from the 1800s by the Rochdale Pioneers.

The USDA refers to Cooperatives as a user owned, user controlled business that distributes benefits on the basis of the user.



INTRODUCTION

- The International Cooperative Alliance (ICA) defines cooperatives as

“An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”.

ICA (1995)

Zamagni and Zamagni 2010 further defines cooperatives as diverse organizations which address plurality of social and economic needs



INTERNATIONAL AGENCIES

There are International Agencies that infuse the cooperative footprint

- World Bank
- United Nations
 - *International Labour Organization*
 - *International Cooperative Alliance*
- World Council of Cooperative Credit Union
- International Development Bank
- International Monetary Fund



International Agencies

These International Agencies acknowledge in their pronouncements and guidelines that the cooperative model is a useful tool for development of nations, wealth creation, poverty alleviation and is inclusive of gender, culture and diversity.



Regional and International Governing Bodies

- Caribbean Confederation of Cooperative Credit Union
- World Council of Cooperative Credit Union



Data on Credit Unions

2014 WOCCU Statistical Data

60645 Credit Unions in 104 countries

222.8 Million members

Savings \$1507B

Loans \$1242B

Assets \$1823B

Penetration 8.3%

Credit Unions in the Caribbean

- **19 Countries**
- **386 Credit Unions**
- **3.6 Million Members**
- **\$5.6B Savings**
- **\$4.7B Loans**
- **\$7.0B Assets**
- **Penetration 19.9%**

Credit Unions in Jamaica

- 29 Credit Unions
- 1.03M Members
- \$620M Savings
- \$537M Loans
- \$800M Assets
- 37.4% Penetration

- Stated in US Dollars
- \$127jA to \$1US



Credit Unions

- Dual Entrepreneurial and Associative nature of cooperatives.
- The Credit Union behavior is to balance the interest of members who save and those who borrow
- Credit Unions and cooperatives in general are less understood than other financial bodies
- Credit Unions are member centric
- Investor owned firms usually are singularly focused on the bottom line.



Credit Unions

- Cooperative Difference
- Role of Credit Union in Financial Service Sector
- Credit Unions have undergone changes in order to adjust to rapidly changing environment increasing global, economic crisis.



Cooperative Principles

There are three core principles by which the Cooperatives operate

1. User Benefit Principle

The benefit is transferred to the member based on percentage of use



Cooperative Principles

2. User Ownership Principle

Owners provide financing in proportion to their use thus creating their own financial inclusion.

3. User Control Principle

Governance remains with the owners who control the activities and have responsibility for the long term growth and success of the Cooperative





Questions

- What is the relationship of trust and performance in Cooperatives.
- Is there a relationship between governance and cooperative performance?
- Do factors such as (the composition and size) of the Board affect the performance of cooperatives ?
- Does improvement in governance in cooperatives improve performance?
- Does the relationship between the board and management affect the performance of the cooperative?
- Does improvement in Trust in Cooperatives improve the Governance and performance?



RESEARCH QUESTION

- Is there a relationship between members of the cooperatives and the members of the Board and Managers of the Cooperatives and does this relationship impact the performance of the credit union.



Objective of the Study

To identify the factors which impact the performance of Credit Unions and the role of the Board of Directors, Managers and Members in the growth and sustainability of the Credit Unions in Jamaica



Why this study

- Cooperatives are located in a sea of investors owned firms business environment. The factors affecting these businesses also affect cooperatives.
- Towards survival, sustainability, durability and growth of Credit Unions within the Financial space
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- The alternate financial activity offered by credit unions as financial cooperatives has been developed to address market needs financial inclusion and self help. Credit Unions have been contributing to the rebalancing of economies
- Tchami 2007 notes that cooperatives are based on self help



Rationale

- The cooperative Principles have withstood the depression in the early 20th century and the recent financial crisis of the first decade of the 21st century.
- The principles and the cooperative governance mechanisms could be used to measure the performance and could be the development and growth map for the future of Credit unions.
- Trust may be a factor for Members doing business with Credit Unions and other cooperatives.
- Regulatory bodies have sharpened their oversight role to ensure compliance and to



Literature Review

- The business environment in which cooperatives operate is dynamic and competitive. Bijman(2003)
- Cooperatives operate side by side with businesses and factors which affect business also affect cooperatives.



Literature Review

- Three approaches to governance ; Agency theory and stewardship theory as well as resource dependency theory. Davis, Schoorman and Donaldson (1997)

Economic approach - agency theory

Sociological approach -stewardship theory

Theory	Interest	Role of Board	Model
<i>Stewardship</i>	Shared interest Owner/Member	Improve performance add value, support and partnership	Partnership Model
<i>Agency</i>	Owner/member with different interest	Conformance Safeguard oversee and compliance	Compliance model
<i>Resource Dependency</i>	Shareholder/ Organization with different interest	Chosen to influence Boundary spanning	Facilitative model

Literature Review



(A) Stewardship Theory

(B) Agency Theory

(C) Resource Dependency Theory

(D) Trust

(E) Networking Theory

(F) Reasoned Action Theory



Literature Review

Cooperatives historically are made up of people working together for mutual benefit. Cooperatives share a duality of purpose by their entrepreneurial and associative nature. For this cooperatives face complex governance challenges. Shaw (2006)

Voluntary cooperatives are fed by the stock of social capital. Putnan (1993)



Literature Review

- Trust the epistemology of trust is knowledge developed through life experience. Hardin and Russell (2006)
- Putnan (2000) noted 'trustworthiness lubricates social life' and earlier
- Fukuyana (1995) stated that 'trust is the lubricant for social systems'.
- Trust in Cooperatives is observed by the structure and definition of community and proximity.
- Trust the Social Capital and Creation of Productivity. Fukuyana (1995)

Members

Notes: Trust an Indicator of social capital

- Dissatisfaction
- Loss of interest
- No interest in Governance
- Low Cooperative Belongingness

Problems

- Unmet needs
- Missing market opportunities

Bonding and Bridging Interdependencies

- Networking

Theories

- Reasoned Action
- Trust and Embeddedness

Cooperatives

▪ Solution

Serving the members interest

- Cooperation
- Entrepreneurship
- Improve Trust

Theories

- Principal – Agency Theory – Jensen and Meckling
- Stewardship Theory – Donaldson/ Davis
- - Transaction Cost Economics - Williamson



Literature Review

- Cooperatives are groups of people who get together to meet their need. Birchall (2004)
- By their structure and principles cooperatives are embedded by ownership, use, benefit and governance. Torgerson, Reynolds and Gray (1998)
- Cooperatives are developed as voluntary associations of persons with a common goal, working together to fulfill the individual aspiration.



Literature Review

- Vargas Sanchez (2003) tested the Stewardship theory of Davis et al (1997) and noted as the manager is identified as a Steward he or she should be treated as such and not as an agent.
- Expansion of the role of trust in people centred, shared goals, cooperative environment (2007-2014)



Literature Review

- Dual nature of cooperatives: as a business enterprise and as a social group with collective action. Draheim (1952)
- Cooperatives like other businesses have to remain efficient, financially viable and provide quality goods and services while maintaining a framework for growth, viability and future cooperation. Ernst and Young (2012)



Literature Review

- Granovetter (1976) posited that economic behavior is embedded in social relationship and structures that affect
- Cuevas and Fischer (2006) identified governance issues in the agency theory
- Duality of cooperatives poses some complex governance challenges. Linda Shaw (2006)



Literature Review

- Central to the cooperative is the membership. Members own, manage and share in the surplus of business.
- Firms have as the focal point shareholder value and return on investment
- Cooperative governance structure displays a unique form of democracy and community (Cechin, Bijman and Zylberzsajn,(2010)
- Cooperatives are formed by those experiencing individual or economic difficulty. Fairbain (2004)



Literature Review

- Vargas Sanchez (2003) tested the Stewardship theory of Davis et al (1997) and noted as the manager is identified as a Steward he or she should be treated as such and not as an agent. Conflicts may occur otherwise.

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- Reacting to the crisis and working through the recovery Governments have put in place stricter controls through regulations and policies.
 - Firms are enhancing their own governance systems.
 - Cooperatives too should enhance and improve the governance systems to compete in the business environment.



Expected from the Research

- To inform and assist in policy development
- To support the self regulating cooperative governance with an enabling mechanism of governance
- To widen the body of knowledge and research in cooperatives in emerging markets