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Governance and Social Cohesion in Credit Unions: A Rural and an Urban Acadian Credit Union in New Brunswick (Canada)*

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Abstract

In this article we study the cases of two credit unions, members of the *Caisses Populaires Acadiennes*, a cooperative movement operating in the francophone communities of New Brunswick (Canada). The first, Néguaç, is located in a rural environment with important economic challenges. The second, Moncton-Beauséjour, is located in a very prosperous economic environment. These two credit unions have the additional characteristic of having experienced a merger in the past few years. We find that the role of management greatly differs from that of community's expectations. In an urban setting, competition is fiercer, management can focus more on its credit union's operations and is less scrutinized for its contribution to community. In a rural setting, parochial considerations are important, as are the credit union's contributions to various community projects. In both cases, the personal ties between employees and clients are very important social assets for the credit unions. Our study shows that even with the economic pressures justifying mergers and the re-engineering of activities, governance practices solidly rooted in the community remain important and tend to be preserved. Several facts reflect the influence of social cohesion on governance in a context of rationalization (mergers and re-engineering). This being said, we see signs that these social roots of governance evolve according to a widening of the territory of the reference community, possibly leading to a weakening of the links between governance and the parochial community and a strengthening of the links between governance and the province's francophone community.

* Acadians are descendants of the settlers of Acadia, a French colony located in what is today Canada's Maritime provinces. Many francophones who are not direct descendants from those who live in the region also consider themselves Acadians.

Introduction

Our objective is to analyze the differences that exist between credit unions¹ operating in an urban environment and those operating in a rural environment. We focus our analysis on issues of governance and of social cohesion². To do so, we study the cases of two members of the *Caisses Populaires Acadiennes*, a cooperative movement operating in the francophone communities of the province of New Brunswick (Canada). These two credit unions have the additional characteristic of having passed a merger in the past few years.

The present article is a corollary of a broader study on the impact of globalization on credit unions in Québec and New Brunswick (Malo *et al.*, 2002). Several case studies (Mager, 2001; Huot, 2001; Camus, 2001; Chouinard *et al.*, 2001) were performed to try to answer questions such as: How do credit unions adapt to their new environment? Are they more inclined to continue to generate social capital which will help both individuals and communities to successfully meet their new challenges? How can we be able to measure their vitality and their impact? One of our conclusions (Chouinard *et al.*, 2001) was that, in New Brunswick at least, there were significant differences in the answers to these questions depending on whether the credit union was located in a rural or an urban setting. The present article highlights these differences between a rural credit union and an urban credit union.

Before starting our analysis, let's do a brief overview of recent structural changes within the *Caisses Populaires Acadiennes* movement (Desjardins and Robinson, 2001). In fact, two phenomena left their prints on the movement during the last years. The first is a re-engineering initiative started in 1997. The second is a recent wave of mergers whose catalyst is an orientation meeting for the whole movement held in November 1998.

In New Brunswick's Acadian regions, re-engineering takes the shape of a detailed revision of all procedures as well as of the business relationship with the members. As for the wave of mergers, most of the leadership came to the conclusion that individual credit unions had to attain a minimal size in order to successfully implement the actions required by the re-engineering process. It was also a strategy to achieve

¹ In French, *caisses populaires*. To avoid any confusion, we refer to *Caisses Populaires Acadiennes* when we want to identify the entire Acadian credit union network and to credit union when we refer to them individually.

² We define social cohesion as "the extent to which people respond collectively to achieve their valued outcomes. It is an outcome of a series of processes specific to activities, times, and groups. It may be positive for some and negative for others" (Reimer, 2003). We define governance as "the use of institutions and structure of authority to allocate resources and coordinate or control activity in society or in any other relevant environment, including the economy. [It] implies steering, coordinating, resourcing, and legitimating a series of activities or behaviors designed to achieve desired collective outcomes. [It] also implies mechanisms of transparency, accountability, and popular sovereignty" (Bell, 2002:1). Furthermore, it involves "all forms of coordinated and authoritative action, either through the public or private sectors or through various combinations of the two" (Bell, 2002:2).

economies of scale in order to be able to better face increased competition. The number of credit unions declined from 86 to 34, without forcing any to merge. Furthermore, in spite of the high number of mergers, there still are 85 service centers in operation. We can thus confirm that the mergers were much more an exercise of administrative reorganization than an exercise of rationalization aiming to reduce the number of business places.

Let us now turn to our two cases. The first is the Moncton-Beauséjour credit union, the product of a merger between the Assomption and Moncton credit unions³. The second is the Néguaac credit union, the product of four different mergers: Néguaac with Lacacéville, Tabusintac, Rivière-du-Portage-Brantville, and Beaverbrook⁴.

Socio-economic profile of the two credit union's territories

The communities covered by the two credit unions are very different. While Greater Moncton⁵ is a vibrant and dynamic urban center, the village of Néguaac and the civil parish of Alnwick constitute a very rural region⁶.

Greater Moncton had, in 2001, a population of 93,007 while Néguaac-Alnwick's was 8,263 (Table 1). An important factor to consider is that while Greater Moncton's population grew by 4.7 percent between 1996 and 2001, Néguaac-Alnwick's decreased by 4.1 percent during the same period.

New Brunswick attracts few international migrants. This is also true for Greater Moncton and even more so for Néguaac-Alnwick. On the other hand, one notes that approximately a quarter of the population of Greater Moncton was born outside the province whereas for Néguaac-Alnwick this percentage is less than 6 percent. Furthermore, whereas 82.3 percent of Greater Moncton's population did not migrate in 2000, this percentage was 92.9 for Néguaac-Alnwick. If one lengthens the period to see the percentage of those who have not migrated between 1996 and 2000, we arrive at 55.4 percent for Greater Moncton and 81.4 percent for Néguaac-Alnwick. We thus see the relative attractive strength of Greater Moncton and the demographic challenge that face rural regions such as Néguaac-Alnwick. This factor is important when

³ The Moncton-Beauséjour credit union merged in May 2002 with the Fredericton credit union to become the Beauséjour credit union. While the first merger was between two credit unions of the same community, Fredericton – the provincial capital – is located 160 kilometers from Moncton. This does constitute a very interesting case to analyze, but for the purpose of the present study, we concentrate our analysis on the results of the first merger, focusing on the notion of the single urban community.

⁴ Note that the merger with Beaverbrook is a special case in the sense that it was a very small credit union and its financial situation was extremely fragile. Following the merger, the service center was eventually closed.

⁵ Greater Moncton includes the Cities of Moncton and Dieppe and the town of Riverview, which, with contiguous boundaries, for all intent and purposes represent a single market.

⁶ The civil parish of Alnwick, which surrounds the village of Néguaac, includes the communities of Lagacéville, Tabusintac, Rivière-du-Portage, Brantville and Beaverbrook.

one considers social cohesion. The population of Néguaac-Alnwick is a lot more sedentary than the one of Greater Moncton, with important repercussions on the social cohesion in the two communities.

Table 1: Demographic data, New Brunswick, Greater Moncton and Néguaac-Alnwick, 2001 (unless otherwise indicated)

	New Brunswick	Greater Moncton	Néguaac- Alnwick
Population (2001)	729,498	93,007	8,263
Population (1996)	738,133	88,463	8,619
Variation 1996-2001 (%)	-1.2	4.7	-4.1
Population (1991)	723,900	83,743	8,733
Variation 1991-1996 (%)	2.0	5.6	-1.3
Land area (km ²)	71,569	228	750
Born in the province (%)	82.4	75.4	94.6
Immigrant population (%)	3.1	2.9	0.6
Did not migrate in the last year (%)	87.7	82.3	92.9
Did not migrate in the last 5 years (%)	67.2	55.4	81.4
Mother tongue – English (%)	65.2	62.7	12.7
Mother tongue – French (%)	32.9	34.8	85.1

Source: *Statistics Canada, 2002.*

From a linguistic viewpoint, the community of Greater Moncton is very much a mirror of New Brunswick with approximately a third of its population being French-speaking whereas two-thirds of its inhabitants are English-speaking. In Néguaac-Alnwick we find that more than 85% of the population is French-speaking.

Statistics reveal disparities between the two regions (Table 2). While Greater Moncton has statistics above the provincial average, it is the opposite for Néguaac-Alnwick. Note that Néguaac-Alnwick's employment rate is only 38.5 percent while it is 62.7 percent for Greater Moncton.

Sectors of activity reflect a "rural economy" for Néguaac-Alnwick (*i.e.*, relatively more concentrated in primary and secondary sectors) and an "urban economy" for Greater Moncton (*i.e.*, relatively more concentrated in the tertiary sector). The relatively strong concentration of employment in the manufacturing sector for Néguaac-Alnwick is the result, in large part, of the relatively strong presence of fish processing plants and pulp and paper mills in northeastern New Brunswick, where Néguaac-Alnwick is located.

Table 2: Labor Market data, New Brunswick, Greater Moncton and Négua-Alnwick, 2001 (%)

	New Brunswick	Greater Moncton	Négua- Alnwick
Participation Rate	63.1	68.0	53.7
Employment Rate	55.2	62.7	38.5
Unemployment Rate	12.5	7.8	28.3
Sectors of activity (% of total employment)			
Agriculture, forestry, fishing and hunting	5.6	0.4	14.0
Mining and oil and gas extraction	0.9	0.1	3.4
Utilities	1.0	0.4	0.9
Construction	6.4	4.4	9.0
Manufacturing	12.6	7.9	17.0
Wholesale trade	3.5	5.8	3.6
Retail trade	11.2	12.5	10.8
Transportation and warehousing	5.5	7.5	3.6
Information and cultural industries	2.0	3.1	0.7
Finance and insurance	3.0	5.6	1.3
Real estate, rental and leasing	1.1	1.6	0.0
Professional, scientific and technical services	3.5	4.6	1.4
Administrative and support, waste management and remediation services	4.7	7.0	2.6
Educational services	6.6	6.5	7.4
Health care and social assistance	11.1	11.5	8.8
Arts, entertainment and recreation	1.6	2.0	0.9
Accommodation and food services	6.6	7.7	6.6
Other services (except public administration)	5.4	4.7	3.4
Public administration	7.8	6.7	4.1

Source: *Statistics Canada, 2002.*

The educational achievement of the adult population (20 years and more) also highlights disparities between our two communities (Table 3). Whereas Greater Moncton's population has above average – compared to the province – educational achievements, it is the opposite for Négua-Alnwick.

The trend is again similar for average family income (Table 3). It was above the provincial average for Greater Moncton and below the provincial average for Négua-Alnwick. More specifically, Greater Moncton had an average family income of \$59,686 in 2000 while it was \$36,231 for Négua-Alnwick. These statistics reflect, in part, the seasonal nature of the economy of Négua-Alnwick.

Table 3: Educational achievement (20 years and more) and average family income, New Brunswick, Greater Moncton and Néguaac-Alnwick, 2001

	New Brunswick	Greater Moncton	Néguaac- Alnwick
Less than grade 9 (%)	14.8	8.8	32.8
Grades 9 to 12 (%)	34.3	29.4	37.2
Trade certificate or diploma (%)	12.3	11.1	9.8
College (%)	19.4	24.8	13.1
University (%)	19.2	25.9	7.3
Average Family Income (\$)	52,704	59,686	36,231

Source: *Statistics Canada, 2002.*

The credit unions and their territorial foundation

The territorial dimension has experienced transformations since the origin of the *Caisses Populaires Acadiennes*. Initially, the territory covered by the credit unions was similar to that of the religious parish. This was no coincidence: the development of the credit unions is closely associated with the Catholic Church, whose leaders represented at the time, with certain businessmen⁷, an elite that saw to the promotion of the national interests of francophones. This territorial foundation of the credit unions was uniform, whether they were located in a rural or an urban setting.

We must point out the narrow ties that unite the Acadian with their credit unions. This reality is a reflection of a political and economic nationalism. Even in a context where competition is greater – in urban settings – this “favorable bias” of Acadians towards their credit unions will benefit the latter. This reality had – and still has – an impact on the role played by the credit unions in their relative communities and by extension on the role played by their managers. The Acadian community often endowed credit unions and their managers with social responsibilities which are not incumbent upon similar institutions of the English speaking communities. In the beginning (the first Acadian credit union was created in 1936), the *Caisses Populaires Acadiennes* essentially played a role of savings generator for its members. At the end of the 1960s, they began to modernize their activities and practice inter-cooperation with the management services of *les Caisses Desjardins* in the neighboring province of Québec. From then on, the *Caisses Populaires Acadiennes* increased their loan activities. As some credit unions are faster than others in offering mortgages, some members will go to a neighboring credit union in order to get services unavailable at their local credit union. This redefinition of the territory of the credit union will be more important in urban regions where we find a relatively higher concentration of

⁷ We can refer to businessmen since at the time there were very few businesswomen.

unions, particularly if one includes credit unions located in communities on the fringe of urban centers.

The Moncton-Beauséjour credit union

The origins of the Moncton-Beauséjour credit union, located in the urban region of Greater-Moncton, go back to the creation of l'Assomption credit union in 1944. It was a pioneer in the field of loans, particularly mortgages, which attracted clients from neighboring credit unions, including from Dieppe. Nevertheless, the parochial foundations of its activities remain, even today.

The urban setting of the credit union means that the competition it faces is much stronger than for a rural credit union, the latter being often the only financial institution in the community⁸. Furthermore, the territory itself is experiencing transformations: the introduction of information and communications technology allows the supply of services with less geographical constraints.

It is important to emphasize the bilingual character of Greater Moncton and to recall that the credit unions develop their market mainly within the Acadian community: it is estimated that Anglophones represent only 10 percent of the clientele of the Moncton-Beauséjour credit union.

As we indicated earlier, competition is fierce in urban regions. To counter this competition which tends to increasingly attract Acadians in spite of the “nationalistic bias” in favor of “their” credit union, the credit union’s strategy is to bet on the excellence of its services and on a personal contact with its clients. Even if it increasingly uses information and communication technology to offer services, such as automatic teller machine (ATM), web-based personal account management, etc., the credit union attempts to maintain one of its specificity on the market: a more personalized service for its clients.

Economic institutions and associations in the Greater Moncton

Numerous institutions and associations in the region have an economic mandate. The region has indeed developed an impressive community economic development culture over the past quarter century (Desjardins, 2002). At the beginning of the 1980s, the region was hit hard by the withdrawal of important employers (*e.g.*, closing of the Canadian National shops, of the center of distribution of sales by catalogue for the Eaton Company, etc.), resulting in the loss of several thousands of jobs in a region which at the time had far less than the present 93,000 inhabitants. Some were even predicting Greater Moncton’s economic demise. Facing this crisis, the business community “took the bull by the horns” and put in place a strategy of cooperation.

⁸ In 2003, 49 service centers of the Caisses Populaires Acadiennes network were the only financial institution with a physical presence in the community.

The strategy seems to have been successful when one looks at the region's recent economic performance.

The large number of institutions and associations create a situation where the community's expectations towards the credit union's managers are very different than those for a credit union in a rural setting, where it is often the only organization rooted in the community able to influence its economic development. For the managers, the urban environment thus presents challenges which are very different from those in a rural environment.

Grounding in the community

A credit union located in an urban setting has a different membership than one located in a rural setting. In the case of Moncton-Beauséjour, we find a significant new clientele formed by the numerous in-migrants to the Greater Moncton region, most often originating from rural New Brunswick. This reality offers an opportunity for the urban credit union which can recruit those Acadians which have traditionally been clients of a "caisse populaire". Nevertheless, while these in-migrants do represent an interesting basis of clientele for the urban credit unions, they also turn out to represent a challenge. These in-migrants from rural New Brunswick, once confronted with urban financial institutions (including credit unions) realize that the services (quality-wise and price-wise) offered by their former rural credit unions were deficient⁹. The end result is that the original goodwill of these in-migrants for the Caisses Populaires Acadiennes is eroded and urban managers have to work hard to improve their reputation, blemished by actions outside their control.

In spite of this, the credit union can still usually depend on a "favorable bias" from the rural Acadian migrants towards their credit union. These newcomers often have numerous financial needs to be met. They are generally young families or young individuals who need personal loans and/or mortgages. This reality, combined with the strong growth in the region, put enormous pressure on the availability of funds at the credit union. It leads managers to negotiate agreements with more liquid credit unions to import funds. This often takes the form of "bridging loans"¹⁰ with one or several liquid credit union, or with the Fédération des Caisses Populaires Acadiennes, the credit union's umbrella organization.

Table 4 describes the financial performance of the Moncton-Beauséjour credit union and presents several important factors. First, one notes that the merger took place between two credit unions of different size. However, we found that since both were part of the same municipality – even if their respective territories corresponded to two different parishes – the implementation of the new structure took place more effectively than if the two entities had not been from the same community. Such a

⁹ This may be the result of several factors including a higher cost structure in rural credit unions, personnel with less expertise, the absence of competition to push prices down and quality up, etc.

¹⁰ In French, *montages financiers*.

situation offers managers greater flexibility for the management of the new merged credit union, not having to be as sensitive to “parochial considerations”.

Table 4: Selected financial statistics, Moncton-Beauséjour before and after the merger (in CA\$)

	Before the merger		After the merger		
	Assumption	Moncton	Moncton- Beauséjour	Moncton- Beauséjour	Moncton- Beauséjour
	June 1999	June 1999	Dec. 2001	Nov. 2000	Nov. 1999
CREDIT					
Total loans	58,050,000	7,620,000	85,060,631	77,000,000	68,600,000
Personal loans	44,210,000	6,960,000	63,000,132	59,400,000	53,660,000
Business loans	13,840,000	660,000	22,060,499	17,600,000	14,950,000
DEPOSITS					
Total savings	51,160,000	11,200,000	81,888,641	69,400,000	64,870,000
Term savings	36,520,000	5,250,000	55,352,153	47,800,000	43,280,000
Other savings	14,640,000	5,950,000	26,536,488	21,600,000	21,590,000
Rebates	84,000 (7 months)	0 (3 months)	N/A	347,183	66,217 (5 months)
Profitability (Excess payment/ \$100 in asset)	0.25 (7 months)	0.14 (3 months)	N/A	1.04	0.16 (5 months)

Secondly, the demographic growth of the community creates a situation where managers cope with vigorous growth rather than weak growth or even stagnation. For managers, such a situation has major repercussions on their operations. Although managing growth brings its share of challenges, it allows, for example, to manage the distribution of human resources of the new credit union more easily since surplus staff, with growth, will become required in a not too distant future. Opportunities for staff redistribution are the result, amongst other factors, of the presence of economies of scale generated by the merger.

Another aspect which emerges from Table 4 is the rapid growth of business loans. In addition to the vigorous economic growth taking place in Greater Moncton, we may point out as an explanatory factor the fact that Acadian entrepreneurs became more active players in the region’s economy during the past few years. This translates in additional challenges for managers who not only have to make sure that the increase of business loans is managed wisely, but also that they often must deal with new young – and relatively inexperienced – entrepreneurs.

In the future, the credit union’s strategy will be to attempt to better meet the

needs of businesses since, according to the credit union's General Manager, this niche offers very interesting growth potential. For example, employees of an enterprise who become members of the credit union, in turn may well become members.

The Néguaac credit union

The Néguaac credit union, founded in 1938, is the “mother” credit union, being the place of management after the recent wave of mergers. An interesting fact is that the first merger was with a credit union (Tabusintac) which was a member of the English-speaking Federation of credit unions.¹¹ Followed the mergers with the Lagacéville and the Bevearbrook credit unions. These three (Tabusintac, Lagacéville and Bevearbrook) were, at the time of merger, in precarious financial situations and the small size of their local population, combined with the relative weakness of the economic activity on their territory, limited the prospective of improvement if they followed their path alone. Total assets for the Tabusintac credit union at the time of merger in 1993 were \$1.3 million and it had 429 members (Table 5). For the Lagacéville credit union it was \$1.7 million and 685 before the 1995 merger. In the case of Beaverbrook, it was even smaller and this service center was closed, its members receiving services from other centers.

Table 5: The Tabusintac (1993) and Lagacéville (1995) Credit Unions at the time of merger, compared to the Néguaac Credit Union (1995)

Credit Union	Assets
Néguaac	\$18,187,557
Lagacéville	\$1,762,512
Tabusintac	\$1,262,309

In 1998, it was the Rivière-du-Portage-Brantville credit union's turn to merge with Néguaac. It was profitable but was not large enough to offer its members all required services, a situation which triggered the merger. For example, the small size of its loan portfolio created a situation where it had to turn down loan requests which were sound, but which would have created a portfolio too concentrated in one or a few economic sectors. The Manager of the Rivière-du-Portage-Brantville service center, who was before the merger its General Manager, is of the opinion that the merger represented a good business opportunity. However, before the merger, some members of the Board of Directors had some reservations concerning the merger project

¹¹ In New Brunswick, there are two credit union Federations, one French-speaking (the caisses populaires acadiennes) and one English-speaking. The two are totally independent from each other.

with Néguaç, reservations based on the perception that decisions would henceforth be taken in a remote community. These fears seem to have disappeared.

The territory of the Néguaç Credit Union

As noted before, the territory covered by the credit union witnessed its population decrease in the past years. Its economy is centered on the resources of the sea and the forest. This dependence of harvesting natural resources makes the community vulnerable. This is clear from the General Manager's comments: "If the [pulp and paper] mill in Miramichi [a community 50km away] would close its doors, it would hurt us badly" (our translation). Or again, on the issue of a recent conflict dealing with sharing lobster harvesting rights with a neighboring aboriginal community: "If lobster harvesting regulations were significantly changed... we are not diversified..." (our translation).

To illustrate the weakness of the region's economic base, in 2000 there were only 121 enterprises in the immediate region. With the exception of a fish processing plant offering seasonal employment, all these enterprises had less than 50 employees.

The business perspective

In this case, the merged credit unions are not part of a single community – at least not in the strict sense of the concept. A concern for the Managers is then to make sure that the mergers are not accomplished at the expense of local rooting and the feeling of belonging.

In spite of the fact that when the various mergers took place the Tabusintac, Lagacéville and Beaverbrook credit unions were not profitable, these service centers were nevertheless kept open, and still are for Tabusintac and Lagacéville. As for Rivière-du-Portage-Brantville, the merger triggered accelerated growth, according to the service center's Manager.

Another strategy favored by the Néguaç Managers to differentiate themselves in the community is to be very generous with donations. They estimate these donations to represent approximately \$0.16/\$100 of assets, compared to the network's average of \$0.10/\$100 of assets. According to the General Manager, this offers very good visibility in the community. Furthermore, and this is to a large extent linked to the choice of maintaining open smaller service centers, the Néguaç credit union spends relatively more for staffing than other credit unions (Table 6).

Table 6: Cost of staffing, donations and sponsorships, 2000 (Néguac, other credit unions of similar size, and network average)

	Néguac	Similar credit unions	Network average
	\$/100 of assets	\$/100 of assets	\$/100 of assets
Cost of staffing	\$2.18	\$1.91	\$1.88
Donations and sponsorships	\$0.16	\$0.10	\$0.10

The competition

In the village of Néguac, a traditional bank represents the main competitive factor. Regional competition also comes, but to a lesser extent, from other financial institutions with a physical presence in the City of Miramichi (50km from Néguac). Managers thus face some competition, but it is appreciably less than the competition faced by credit union Managers in urban settings like Moncton.

As is the case for the Moncton-Beauséjour credit union, to maintain its clientele, the Néguac credit union's strategy includes the excellence of its services and a personal contact with its clients. The credit union's General Manager is quick to add that it differentiates itself from its main competitor, the bank, by its community involvement. This strategy attaches a great deal of importance to the personal ties between the member and its credit union. This demonstrates that the credit union's roots in the community more than ever includes the preservation of the personal ties with the members, the support of community organizations and having competitive interest rates.

The community's financial needs

Néguac credit union's Managers thus adopted an approach of proximity, aimed at focusing on all members rather than targeting certain segments of the membership. The clients residing outside the village of Néguac are thus well served, the credit union offering through the outlying service centers improved services. The reorganization of activities at the merged credit union therefore allowed improved services to all members, particularly those previously members of the smaller credit unions, thwarting the potential flight of members to other financial institutions.

Table 7 presents the financial situation before and after the latest merger between the Néguac and Rivière-du-Portage-Brantville credit unions.

Table 7: Selected Financial Statistics, Néguaac and Rivière-du-Portage-Brantville Credit Unions Before and After the Merger (in CA\$)

	Before the Merger		After the Merger	
	Néguaac (March 1999)	Rivière-du- Portage-Brantville (1999)	Néguaac (Dec. 2001)	Néguaac (March 2000)
Total loans	21,300,000	5,100,000	31,653,305	27,600,000
Personal loans	18,900,000	4,540,000	28,621,642	24,700,000
Business loans	2,400,000	540,000	3,031,892	2,900,000
Total savings	23,800,000	5,300,000	34,714,838	31,700,000
Term savings	14,100,000	2,600,000	19,935,912	18,500,000
Other savings	9,670,000	2,700,000	14,778,926	13,200,000
Rebates	0	0	N/A	67,000
Profitability (Excess payment /\$100 in asset)	0.64/100	0.71/100	N/A	0.73/100

The Role of managers in the two credit unions after mergers

Moncton-Beauséjour

The Moncton credit union, which merged with the Assomption credit union to become the Moncton-Beauséjour credit union, had 6 employees before the merger, while Assomption had 27. Managers of the new credit unions had two options: lay-off some employees, focusing exclusively on their expertise and on reducing operational costs, or maintain all employees and improve the level of their performance. Had the first option been adopted, up to 70 percent of employees could have been affected, but the managers chose the second option in part because of the personal ties existing between the employees and the clientele. Credit union managers thus recognize the social asset which constitutes the quality of the personal relationships between clients and employees and opted to improve their employees' level of expertise through training. This philosophy is also reflected in the retention of the former General Manager of the Moncton credit union who became Service Director. One must add that growth – demographic and economic – in Greater Moncton offers much flexibility to managers with respect to personnel management.

Merger was thus the trigger for the creation of training programs to allow employees to upgrade their skills and to increase, in this case more specifically for former employees of the Moncton credit union, their awareness to the methods of work of the Assomption credit union, farther ahead in the re-engineering process. Early in their merger analysis Assomption credit union's managers had identified a

need to improve Moncton credit union's employees' level of expertise. With the merger, the challenge becomes having employees from both credit unions work towards the same objectives, with similar methods of work and therefore to merge the two business cultures in favor of the business culture prevailing at the Assomption credit union in the context of the pursuit of the re-engineering process.

Moncton-Beauséjour's business culture strives for greater employee involvement in the business plan in order to achieve continuous improvement. In this re-engineering process, managers asked employees to try to eliminate useless operations in their work. For example, instead of routinely making a given operation, they were asked to wait for the need to become obvious. This specific exercise led to the elimination of 10 percent of the work operations.

One arrives at the conclusion that re-engineering generates more opportunities for employees to conceive the way to execute their tasks, although these must follow the path laid out by the managers in the business plan which identifies performance objectives (relative to the quality and to the quantity of services rendered) as well as profitability objectives.

This new approach to the management of the credit union forces managers and employees to constantly evaluate their methods of work. As pointed out by the General Manager, as soon as an employee thinks that the right method has been found, it must be re-evaluated. Some employees have left, unable to work in such an environment of continuous improvement. Those that remain make a lot of effort to pursue in this logic of management, and it proves to be difficult for some, according to the General Manager.

The Board of Directors

The Board of Directors is not involved in the daily management of the credit union. It defines the global objectives, often following recommendations of the General Manager. There was a time when the future of the credit union was greatly dependant on the board's actions. Nowadays, given the complexity of the activities, especially given the presence of qualified personnel, the Board of Directors seldom gets involved in the operational aspects of activities.

Further to the merger, the Board of Directors has ten members, half from each merged union. The option of having a representation proportional to the economic weight (as measured by assets) of each merged credit union was not seriously considered. Such a scenario would have produced a new board of 7 members from the Assomption union and 2 from the Moncton credit unions. The General Manager – who, as recalled, is from the bigger Assomption credit union – insisted on giving a strong voice to the Moncton credit union's representatives. In the future, the selection of new members to the Board of Directors will not take into account specific geographical representation.

It is important to point out that the merger and the re-engineering processes are not directly the result of members' initiatives but rather of the management. At the same time, while the Fédération des Caisses Populaires Acadiennes did not have a

policy of forcing mergers, they strongly encouraged them. Its leaders felt – and still do – that in order to successfully continue its development, economies of scale had to be achieved through a larger number of mergers. This being said, in all cases the general membership had the final word with respect to proceeding or not with the merger proposals.

The Credit Union's social mission

The Moncton-Beauséjour credit union fulfills its social mission in two ways: first, it encourages its employees and board members to be involved in various socio-economic organizations and, second, by making donations to various causes.

By getting involved in the community, their objective is to promote the interests of francophones, but they do not lose view of the credit union's interests. By encouraging its employees and board members to get involved in the community, it is a way of increasing the credit union's visibility. For example, the General Manager was strongly involved in a committee aiming at obtaining a francophone high school, an initiative recently crowned with success. Even though his involvement was not primarily motivated by this reason, he was nevertheless trying to increase the number of francophones in Moncton, his client-base.

Donations also aim, though not exclusively, to help the Acadian community. They represent 7 to 8 percent of excess payments, which would be above the average of other credit unions and banks. Donations either take the form of grants or of sponsorships¹². Total donations vary from year to year from \$20,000 to \$60,000 with an average of approximately \$25,000.

Here are examples of donations by the Moncton-Beauséjour credit union¹³:

- University scholarships
- Acadian games (sporting events)
- Community organizations (food banks, women's centers, children's centers, etc.)
- Georges-Dumont Hospital (the only Francophone hospital in the region).

We note that the credit union's social mission is defined from a nationalism that aims to promote the interests of the Acadian community. The embeddedness of the credit union in the Acadian community is thus reflected in its social mission that is influenced by the larger interests of this community.

The economic mission

The credit union's mission is essentially defined by the services offered to its clients. These are principally the opportunity to be remunerated for savings, access to various forms of credit as well as to financial expertise. A niche becoming increasingly important is business loans, up to 22 percent of total loans. Note that up to Fall 2002,

¹² As opposed to grants, sponsorships offer visibility which is negotiated with the recipient.

¹³ Generally, for small amounts, the General Manager alone takes the decisions. For larger amounts, the Board of Directors is responsible.

provincial legislation limited business loans to 25 percent of assets. It is now limited to 35 percent.

The Moncton-Beauséjour credit union does not have a specific economic development mission, which could translate into a direct participation in economic development organizations. Its urban environment with a very vibrant economy and numerous organizations dedicated to economic development is such that the credit union is not expected to be a leader or even be active on this front.

Néguac

The Néguac credit union has several places of businesses. In Rivière-du-Portage-Brantville, there still are six employees (including one part-time), equivalent to the number before the merger. The situation is similar in Néguac, with fifteen employees. Before the merger, Tabusintac had an average of 2 to 2½ employees and Lagacéville of 2½ to 3. For both service centers the number is now down to one. Part of the reason being that all loans are now administered from the Néguac office.

As was the case for the Moncton-Beauséjour credit union, the Rivière-du-Portage-Brantville service center kept its employees because of their personal ties with the clientele. Managers again recognized this corporate asset that constitutes a quality relationship between its clients and employees and chose to improve the employees' low level of expertise. Keeping all the employees also helped to neutralize the potential opposition to the merger¹⁴.

For the Tabusintac and Lagacéville mergers, during the first half of the 1990s, the jobs were not protected: the financial precariousness of these two credit unions was such that members understood that it was not possible to do so.

The Credit Union's social mission

There is not a strategy for Board of Directors involvement in the community. In fact, the General Manager indicated that he wanted to limit his personal participation in community organization to maintain a certain level of independence in such a small community where "everybody knows everybody". On the other hand, Recruitment to the Board of Directors does take geography into account, with the objective of having various sub-regions represented.

We thus have a case where the relatively smaller size of the community, as opposed to larger communities such as Moncton, creates a situation where networks are already comprehensive and the credit union's leadership considers that further development is not necessary. On the other hand, it could be argued that donations play a greater role than for Moncton-Beauséjour, in part because the Néguac credit union is very often one of the few – if not the only – organizations with funds to support various community projects.

¹⁴ Although the Néguac credit union has started implementing changes linked to re-engineering, it is not as advanced as Moncton-Beauséjour in the process.

The economic mission

Economic development challenges are much different than those faced by the managers of the Moncton-Beauséjour credit union. Although the region made significant progress, the Néguaac-Alnwick economy is still deficient. Numerous government initiatives have allowed the implementation of relatively good infrastructure. The economy is somewhat more diversified. Unemployment is nevertheless a very important problem. Furthermore, seasonal employment is still overwhelming. Linked to the fisheries, peat moss, tourism and the forestry sectors, these jobs procure a certain amount of work to many individuals. However, in most cases, these are not highly paid jobs and are only available for a limited number of weeks per year. Recent modifications to the employment insurance program¹⁵ had a negative impact on seasonal workers. A result of this difficult situation is an important youth exodus towards larger centers, such as Greater Moncton, which offer better employment opportunities.

These economic difficulties can only influence the activities of a credit union situated in such a community, a phenomenon very different from that of a credit union located in a prosperous urban setting like Moncton-Beauséjour. These economic difficulties generate a relatively greater financial vulnerability as much from an individual as from a collective point of view. This in turn translates into a higher risk level for credit unions operating in such an environment compared to more prosperous regions. Furthermore, the community develops greater expectations vis-à-vis the role of the credit union, given that it is often one of the only local institutions which can influence the region's economic development prospects. While they may not lead economic development efforts, everybody considers their actions to be of paramount importance for the region's future.

Conclusion: rural and urban – a different reality

We have presented the cases of two Caisses Populaires Acadiennes from New Brunswick, Canada. They share several characteristics, including having recently experienced mergers. On the other hand, one is located in a rural setting (Néguaac) while the other is located in an urban setting (Moncton-Beauséjour).

We noted that the role of management as well as community's expectations towards the credit unions are very different. Moncton-Beauséjour, the urban credit union, benefits from a vigorous regional economy and strong population growth. Its managers are not at the forefront of economic development activities and their actions are not scrutinized with this in mind. The credit union is certainly an important actor, but it is not operating in isolation: a significant number of economic development organizations are present and active. The role of managers is thus to manage the credit union in a way that it develops a niche differentiating it from its numerous

¹⁵ A federal government program to assist individuals who are temporarily unemployed.

competitors. This reality largely influenced the recent merger where local “sensitivities” were minimal, allowing the manager to manage the merger with a great deal of flexibility.

As for the rural credit union of Néguaac, its socio-economic environment is very different. The region’s economic challenges, its demographic decline and the limited number of local institutions able to influence the region’s economic development, put the credit union on the front stage. The expectations relative to the actions of the managers are not limited to the “routine” operations of the credit union. They are also expected to contribute to the socio-economic development of the community.

Managers of the Néguaac credit union took into account their environment when they successfully managed recent mergers. Amongst the factors which can explain their success, we can highlight the importance they placed on keeping employees, whose personal ties with clients represent a very important social asset for the credit union.

We can state that credit unions successfully contribute to the reinforcement of social linkages, global well-being and even social cohesion as well as to local governance in their respective communities, whether they operate in a rural or an urban setting.

Several factors point to the determining influence of social cohesion on the governance of the *Caisses Populaires Acadiennes*. While pursuing rationalization objectives dictated by economic and financial pressure, leading to mergers and re-engineering, the credit unions maintained the community roots of their activities, including governance. Retaining employees in order to keep personal ties between employees and clients, the commitment and the investments (contributions) in the community, and the networking of board members reflect the credit unions’ community roots of governance and the efforts made to take into account the social cohesion present in the respective communities.

Nevertheless, mergers and re-engineering lead to the redefinition (expansion) of the community where credit unions operate. For example, while the new board initially has a geographic representation, such criteria often disappear after a few years. The religious parish is no longer the reference for the credit union’s territory. Language and nationalism, on the other hand, remain references to define the community. Personal relationships and social cohesion tend to be preserved, although time will tell if economic and financial pressures, which lead to the mergers and to the increased size of the community, will allow for the integration of social cohesion imperatives. Will these personal relationships remain an integral part of governance rooted in a wider territory?

Finally, our study highlighted the local social roots of economic practices of the credit unions. These have managed to integrate in their governance practices both economic and financial imperatives as well as the imperatives of social cohesion. The reference community is changing and expanding. The challenge is to continue this integration of social, economic and financial imperatives.

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