The Role of Governance in Balancing Conflicting Institutional Logics in a Canadian Credit Union

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ABSTRACT

Credit unions are traditionally small, community-embedded and co-operatively-owned financial services organizations that developed to correct various market failures. Recent changes to regulatory policy in the financial services industry in Canada, coupled with advances in technology and urbanization of the population, have led to numerous mergers and consolidations among credit unions, particularly in Western Canada. This has the potential to undermine some of the historic benefits of CUs when compared to other financial services organizations, as it may require credit unions to begin to operate more like banks.

My thesis provides a detailed examination of how senior leaders in one large Western Canadian credit union are handling these issues, and explores what the broader implications might be for policy and governance of credit unions in Canada. Using data collected through semi-structured interviews with top management and board members, this study provides insight into senior leaders' perceptions of and responses to competing institutional logics in a credit union. Implications for policy, as well as decision-making surrounding co-operative governance, strategy, and structure will be discussed.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Credit unions (CUs) hold a significant place in the Canadian financial services industry (Liew and Grant 2015), and play an important role in many communities and well-functioning capitalist systems (Schneiberg 2013). CUs were traditionally small, community-embedded and co-operatively-owned financial services organizations that developed to correct various market failures. In western Canada CUs developed and survived in communities where returns were not high enough for banks to invest or where bank cycles and charges were not conducive to local development (Purden 1980). They provided financial services to individuals who were credit-worthy, but could not get loans from the bank, solving problems of adverse selection (e.g., Akerlof 1970). More recently, CUs had demonstrated greater financial stability than other types of financial service organizations during the 2008 economic crisis, largely due to their ownership / governance structure and methods of capitalization (McKillop and Wilson 2015; Brizland 2013; Birchall and Hammond Ketilson 2009).

CUs provide other benefits as well. Because they are locally-owned and controlled, they are more likely than investor-owned firms to invest profits back into the community through community economic development (Fairbairn et al. 1997). For example, communities with local CUs benefit from their innovative lending practices, business creation initiatives, community involvement, sponsorship of education events, local and regional partnerships, and philanthropic donations to community organizations and clubs (Fairbairn et al. 1997).

Recent changes to regulatory policy in the financial services industry in Canada, coupled with advances in technology and urbanization of the population, have led to numerous mergers and consolidations among CUs, particularly in Western Canada. Although today these merged CUs are much smaller than Canada's five largest banks,[1] which dominate Canada's financial services industry, CUs have grown to manage billions of dollars in assets and serve hundreds of thousands of members (Brizland 2014). Furthermore, their "communities" now span much larger geographic areas (Brizland 2014). This has the potential to undermine some of the historic

[1] The "Big 5" include: Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal, and Canadian Imperial Bank of Commerce.

advantages of CUs when compared to other financial services organizations, and it may require CUs to begin to operate more ”bank-like”[2] (Liew and Grant 2015, 7). The overall aim of this thesis is to conduct a detailed examination of how one credit union that has grown quickly through a series of mergers is handling these issues, and explore what the implications might be for policy and governance of CUs in Canada.

1.2 Regulatory Policy in Financial Services and Governance of Credit Unions

The primary way a CU differs from an investor-owned bank is in its ownership/governance structure, which leads to a greater emphasis on multiple – and sometimes conflicting – objectives. The owners of a CU are also the members who use its services. As such, the maximization of member benefits is their primary motive, rather than profit-maximization (Taylor 1971). Decision makers in investor-owned banks are driven by short-term maximization of quarterly profits and share prices (Barton 2011). CUs are democratically-controlled, generally through elected boards, and decision makers are held accountable to the membership based on their ability to meet their membership's needs and preferences. This arguably leads to a longer-term focus and more favourable outcomes for members and members' communities (McKillop and Wilson 2015). However, recent changes to regulations specific to the financial service industry in Canada, CU growth through mergers, and other governance changes being considered and adopted by CU decision makers, may alter the way these organizations operate.

Recent regulatory changes include: 1) requirements that force financial services organizations to track and report on illegal activities such as money laundering and tax fraud which create additional fixed costs that are problematic for small CUs; 2) a withdrawal of a small business tax deduction that had previously supported CUs; and 3) liquidity requirements that are problematic for CUs due to the way they are capitalized. Some of these changes, such as the removal of the tax deduction, were introduced in an effort to "level the playing field" between growing CUs and banks. However, these changes have not taken into account the unique nature of the co-operative model, and can lead to a disproportionate financial burden being placed on CUs when compared

[2] The phrase "bank-like" and the idea of "acting more like banks" are employed in this study based on the usage adopted by Liew and Grant (2015) in their article "Positioning Saskatchewan's Credit Unions for Growth", and as discussed by interviewees in this study. This terminology represents a way of operating that is primarily focused on profitability and efficiency concerns. We recognize that there are many banks that also operate with broader objectives.

to banks (Liew and Grant 2015). At the same time, the financial services industry is becoming increasingly competitive due to technological advances and increased urbanization of the population, requiring CUs to compete directly for customers with some of the largest financial services organizations in the country.

Mergers and consolidations have become commonplace among CUs in Canada to create economies of scale to meet regulatory requirements and/or to improve member service quality and lower prices. These mergers between smaller CUs create major implications for governance of the newly consolidated organization. A CU's size and membership diversity increases with each merger or acquisition. Some question the ability of their elected boards to effectively manage the risks and strategic requirements of the larger CU (Chen, Spizzirri and Fullbrook 2010). One recommended practice is for CUs to amend their bylaws to include nominating committees that actively recruit individuals within the membership who have the necessary competencies, personal attributes, and skills (British Columbia Credit Union Task Force on Governance 2012). Some proposed changes to bylaws would even allow for the appointment of additional, non-elected directors with the desired competencies if the election process does not result in a board with the right knowledge, experience, and skills (Central 1 2014).

1.3 Empirical Problem

> *…it will be a challenge to continue to be profitable enough to be strong, so that (the CFO) can sleep at night, and then to be relevant to the members and still give back, and still be true to our grass roots, and that's giving back to communities. (Credit Union Executive)*

The quote represents the struggles increasingly experienced by CU decision makers as they guide their organizations through these challenges in a rapidly changing environment. In addition to the aforementioned regulatory and policy changes, financial products and services are becoming more mobile through advances in technology, and CU customers are increasingly moving to or living in urban areas. CUs must offer members rates that are competitive with other financial services organizations. Ultimately, strengthening a CU's bottom line will enhance its ability to offer members better financial products and services and at competitive rates.

However, CUs are also co-operatives – organizations that are owned jointly and democratically directed by members to meet common economic, social, and/or cultural needs (Co-operative Learning Centre 2012). As co-operatives, the core principles and governance structures of CUs guide them to be member driven and community focused. Although generating consistent financial returns is essential to ongoing success, membership demands can be diverse. In addition to providing for the financial needs of members, CUs will often serve other social needs of the membership through donations to various community programs and initiatives, or by being the only financial service provider in the community.

Meeting these multiple objectives in this industry is challenging. CUs face direct and increasing competition from both investor-owned banks (e.g., RBC, CIBC, TD Canada Trust, etc.) and federal crown corporations (e.g., Farm Credit Canada). They also face increasing competition from other growing CUs. Investor-owned banks have been highly successful in providing excellent financial products and services to customers at very good prices, often at better rates than CUs are able to offer due to greater economies of scale. And while government-owned crown corporations operate under a completely different legislative and regulatory framework, CUs are increasingly becoming subject to similar regulations as the banks. Thus, CU decision makers face constant internal and external pressure to adapt their governance structures and decision-making processes, and to adopt similar business strategies as the banks relating to efficiency and growth. Mergers and consolidations are a common CU response to these pressures, creating economies of scale that would otherwise not be obtainable for a traditional local and community-embedded CU.

There are some advantages to increasing a CU's focus on efficiency and growth; CU members can greatly benefit from improved rates and services. However, there are potential situations where adopting certain strategies would produce outcomes that are counter to some member needs and preferences, or to the broader social objectives of the CU. For example, closing a struggling branch might strengthen the CU financially, thereby enhancing the efficiency, competitiveness, and product offerings in the organization as a whole. However, such actions are also likely to create difficulties for CU employees and members from that community.

Growth could also threaten some of a CU's inherent advantages in addressing market and policy failures, as well as community needs. For example, CUs have traditionally incurred less risk in lending and solved problems of adverse selection directly as a result of the relationship linkage between member-owners and through the first-hand knowledge about both the members and the local economic situation that CU managers would have from being embedded in the community (Klinedinst 2010). Larger CUs with many branches may be less connected to each community. The member-owner link may be diminished when an individual member's vote is one in thousands rather than one in hundreds, reducing responsiveness to individual member and community needs.

Recent regulatory and policy changes in the industry have put pressure on CUs to become even more bank-like (Liew and Grant 2015). Regulatory changes have increased fixed costs facing CUs due to security reporting requirements, and introduced new funding and liquidity constraints, while limiting the ability of CUs to raise the necessary revenue through their primary means of capitalization (i.e., through member deposits and equity). Moreover, many governments have removed CU-friendly tax policy in an effort to 'level the playing field'. The logical response to these changes would be to pursue more aggressive growth (both organic and/or through mergers/acquisitions) to minimize the relative impact of the increased fixed costs and leverage economies of scale, and many Western Canadian CUs have adopted this strategy (Bauer et al. 2009). As mentioned, CU decision makers may also feel compelled to search for internal efficiencies such as branch closures or reduction in staffing levels to reduce costs.

There may be good reasons for large (and growing) CUs to consider changing their board election rules away from the democratic member assembly election tradition. The industry is becoming more complex and dynamic, requiring board members to have highly developed knowledge, skills and abilities. The growth experienced by these organizations and the increasing reliance on mobile banking has resulted in a much larger membership that can span vastly different geographic and socioeconomic populations. This has increased the heterogeneity of the membership, which has been one reason proposed for the demutualization of CUs in the United States (Schneiberg 2014). The general election format risks selection of a board that lacks the essential competencies or diversity needed to successfully direct these CUs. Changes to governance structures and practices may increase a co-operative board's collective knowledge in vital areas which can increase the board's expertise.

There is a possibility; however, that certain changes to governance could also detrimentally impact a board of directors' connection with the needs of the members and perceptions of its legitimacy. For instance, Mountain Equipment Co-op – a non-financial co-operative – has been criticized for introducing restrictions to election bylaws that have resulted in member concerns that it is closer to operating like a corporation than a co-operative (Silcoff and Strauss 2015).

There are concerns that the recent industry and regulatory changes may be causing CUs to act like banks (Liew and Grant 2015). It is important that CUs remain distinctly different from banks. The recent economic crisis revealed their ability to withstand economic pressures differently and in many cases better than banks (McKillop and Wilson 2015). Moreover, well-functioning CUs economically empower local communities (Fairbairn et al 1997; McKillop and Wilson 2015). If Canadian CUs lose their distinctiveness, Canadians will lose this important financial services alternative.

Given the recent industry and regulatory changes, and the internal changes to governance of CUs due to increasing mergers in response to these changes, my particular interest in undertaking this case study is to understand how CU decision makers perceive and respond to the pressures in their organizations. Are CU decision-makers beginning to think and act more like banks? Do the changes in regulatory policy and/or governance structure serve to constrain or enable CU responses? What impact might a change in governance structure have on the actions the CU will undertake? This thesis will explore these issues in a qualitative interview-based case study of one credit union that is growing quickly through mergers. The research will have practical implications for CUs attempting to navigate these pressures, as well as policy makers considering policy and regulatory changes that do not recognize the inherent tensions and multiple objectives in CUs.

1.4 Theoretical Contribution

Recent theory and research in new institutional theory on hybrid organizations and institutional logics offers insight into how CU decision makers might experience and respond to the competing pressures to both increase efficiency while meeting members' objectives and supporting the local community. CUs can be considered 'hybrid' organizations.[3] Hybrid organizations embody multiple world views, also known as institutional logics (Pache and Santos 2010). Institutional logics (ILs) are taken-for-granted beliefs, assumptions and practices (Friedland & Alford, 1991) that guide individual actions in organizations.

At any given time or location multiple ILs are available for use within organizations. Sometimes different objectives or backgrounds will result in two or more institutional logics existing at the same time within an organization (Thornton and Ocasio 1999), resulting in significant complexity (Greenwood et al. 2011). Within these hybrid organizations each IL can be represented to varying degrees and can oscillate over time with dominance shifting between logics (Dunn and Jones 2010). Often the presence of two or more logics will result in conflicting pressures on organizational decision-makers since the adoption of practices that support one could directly oppose those supporting the other (Salancik and Pfeffer 1978).

CUs are examples of hybrid organizations, and the "pressures" faced by CU decision-makers can be seen as manifestations of competing institutional logics. As financial services organizations, CUs need to achieve organizational success as measured through market positioning and various financial ratios. The perceptions and practices experienced in this industry constitute a financial logic. In the same way, individuals working in community-focused organizations adhere to principles promoting a commitment to community values, including investment in local communities. These are consistent with a community logic. There are pressures from the industry and the community to operate in ways that are consistent with these logics.

A CU's decision-makers are likely to experience conflict in areas where different institutional logics prescribe opposing actions. For example, a CU decision maker's focus on ensuring greater organizational efficiency might prompt them to considering closing non-profitable branches

[3] The use of the term "hybrid organization" in institutional theory differs from hybrid organizational arrangements, which involves the combination of two different organizations to pursue a common interest (see Borys and Jemison 1989). The term "hybrid" is also used in describing organizations such as social enterprises that obtain resources from a combination of market and other forms of economic exchange (Nyssens 2006). Co-operatives have elsewhere been labeled "hybrid organizations" by Claude Ménard (2004), but this conceptualization also differs from how hybrid organizations are discussed in reference to ILs.

(financial logic); however, sustaining an unprofitable branch will ensure local members' lives are not disrupted and could aid in supporting local employment and development (community logic).

Decision-makers in hybrid organizations have been shown to respond to these pressures in different ways, depending on the degree to which others within their organization identify with each institutional logic, and the comparative strength of each logic (Pache and Santos 2013; Besharov 2014; Kodeih and Greenwood 2014). Other factors also impact the pressures that CU decision makers face and how they respond. For example, organizational structures can be used to compartmentalize opposing logics thereby isolating decision-makers from identity struggles and conflict (Kraatz and Block 2008) or to support confrontation between logics resulting in innovation (Jay 2013). HR practices have also been shown to impact the balance of logics in the field of microfinance. The use of deliberate hiring and socialization practices helped sustain a balance of commercial and developmental logics (Battilana and Dorado 2010), and ongoing negotiation practices supported a balance of conflicting logics which sustained a productive tension that resulted in more success than in branches that supported only one logic (Canales 2013).

Organizational governance arrangements may also play an important role in this area (Kraatz and Block 2008; Battilana and Lee 2014; Jarzabkowski et al 2009; Pache 2011). However, there has been very little theoretical and empirical research on how governance structures impact decision-making in hybrids, and virtually no research has been done on co-operatives as a form of hybrid organization in this literature. The literature on co-operative governance is also gaining increasing attention (Fulton & Pohler 2015). Given the unique nature of a co-operative's governance structure when compared to other hybrids that have been examined, this thesis aims to provide important theoretical insights that contribute to an improved understanding of how governance structures affect decision-making in hybrid organizations. My case study of one credit union that has undergone a series of mergers allows me to explore the implications of internal changes to governance in a hybrid organization, and how these changes influence the perceptions and responses of senior decision-makers to the pressures they are facing.

1.5 Purpose of Thesis

This thesis is intended to increase understanding around how Canadian CU decision makers perceive and respond to changes in regulatory policy, the competitive landscape, and internal governance practices that could fundamentally impact the way they operate. Through learning about how CU leaders experience and respond to pressures associated with these changes, policy makers will be better able to predict the effects of such legislation on financial co-operatives and create policies that will support a healthy and competitive financial services industry.

Theoretically, although new institutional research on the balance of competing tensions in hybrid organizations is growing rapidly, there has been little empirical research into how an organization’s governance structure impacts the balance of institutional logics within the organization. CUs are a form of hybrid organization that exists in the intersection of both the financial and community logics. Due to their co-operative governance structure, CU decision makers not only experience both logics, but must also find an appropriate balance between both of them in order to successfully direct their organizations. This research will also offer theoretical insights into the role of governance in the balancing of institutional logics in hybrid organizations, specifically financial service co-operatives.

1.6 Organization of Thesis

This thesis is organized into six chapters. Chapter 2 provides the contextual background of the Canadian financial services industry. It also highlights the role of CUs within that industry, and provides further detail into some of the major regulatory and governance changes that CU decision-makers have been recently facing. Chapter 3 reviews the relevant theory and research on new institutional theory and governance. Chapter 4 presents the methodology, and Chapter 5 the analysis and results. Finally, Chapter 6 concludes the thesis by returning to a broader discussion of the policy implications of the findings, as well as highlighting the practical relevance of the findings for CU decision-makers.

CHAPTER 2: CREDIT UNIONS AND THE FINANCIAL SERVICES INDUSTRY

2.1 Chapter Overview

This chapter provides the contextual background for the thesis. It begins with an overview of the Canadian financial services industry and highlights the role of credit unions (CUs) within that industry. It follows with further detail into some of the major regulatory and governance changes that CU decision-makers have been recently facing, and the pressures that this creates inside a CU.

2.2 The Canadian Financial Services Industry

Canada's financial industry is comprised of investor-owned (chartered) banks, government-owned crown corporations, and member-owned credit unions (which include the caisses populaires in Quebec). Each of these types of organizations differs in governance structure, regulatory jurisdiction, and service offerings.

2.2.1 Chartered Banks

Chartered banks are the largest financial service providers in Canada. Their services are vast and competitively priced, making them the financial service provider of choice for the majority of Canadians. Canada's chartered banks are generally classified based on whether or not they are one of Canada's "Big Five" (bankingcanada.net 2015). "Big Five" is the term used for Canada's five biggest banks which include: the Canadian Imperial Bank of Commerce, Toronto-Dominion Bank, Royal Bank of Canada, Bank of Nova Scotia, and the Bank of Montreal (Wikipedia, 2015). The second tier of banks are smaller, but still form a core group in the Canadian banking industry. These include: AMEX Bank of Canada, Citibank Canada, and HSBC Canada (bankingcanada.net 2015).

Canada's chartered banks are classified as Schedule I (domestic banks), Schedule II (subsidiaries of foreign banks) or Schedule III (foreign banks) (Canadian Bankers Association 2015). They are federally regulated under Canada's *Bank Act* with each classification of bank being held to different levels of restrictions and statuses. The Office of the Superintendent of Financial Institutions (OSFI) regulates chartered banks and other federally incorporated or registered financial companies such as trusts, insurance companies, and private pension plans (Office of the

Superintendent of Financial Institutions 2015). Eligible deposits within charter banks are insured through the Canada Deposit Insurance Corporation (Canadian Deposit Insurance Corporation 2015).

2.2.2 Financial Crown Corporations

Government-owned financial institutions such as the Business Development Bank of Canada, Export Development Corporation, the Canadian Commercial Corporation, and Farm Credit Canada exist to help grow and support the economy through providing assistance and resources in specified areas that are intended to complement others in their field. They are run by government-appointed boards who oversee the strategic direction of the organization (Stastna 2012). Federal government-owned financial institutions adhere to guidelines and regulations concerning the governance of Crown corporations that are set out by the Treasury Board Secretariat of the Government of Canada, and they report to parliament through their respective Ministry. For example, the Export Development Corporation reports through the Minister of International Trade (Export Development Canada 2015) and the Business Development Bank of Canada reports through the Minister of Industry (Business Development Bank of Canada 2014). Crown corporations annually undergo an audit and most crown corporations will annually submit corporate plans, and budgets which are tabled in Parliament (Stastna 2012).

As a result of their specialized mandates, government-owned financial institutions' service offerings can differ in many ways from chartered banks and CUs and will often be complementary to services offered in the private sector. For example, the Business Development Bank of Canada (BDC) provides funding and services aimed at entrepreneurs' needs that may be at higher lending rates, but they also offer specialized services and flexible repayment terms that benefit new entrepreneurs (Business Development Bank of Canada 2014). Government-owned financial institutions may also compete with private industry. Farm Credit Canada's (FCC) purpose is to, "enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming" (Farm Credit Canada 2015). Due to changes in its policy mandate in 1993 and 2001, Farm Credit Canada (FCC) now competes directly with private sector financial institutions and even with the BDC (Martin 2014).

2.2.3 Credit Unions and Caisses Populaires

CUs are run by a board of directors which is traditionally democratically elected from among the membership. The board hires a CEO who, in turn, hires and manages the employee base and carries out the board's strategic direction within the organization.

In contrast to chartered banks and government-owned financial institutions, CUs have historically been provincially regulated (Office of the Superintendent of Financial Institutions 2015). Each provincial government either regulates their CU industry or has appointed an arm's length regulator to do so. Separate deposit insurance providers exist in each province; however, the extent of their coverage varies provincially and is generally greater than for chartered banks. Currently there is no CU legislation covering CUs in Canada's three territories.

Table 1 lists the deposit insurance providers and regulators for each Canadian province.

Table 1 - Provincial CU Insurance Providers and Regulators

Province	Deposit Insurance Provider	Regulator
British Columbia	Credit Union Deposit Insurance Corporation (CUDIC)	Financial Institutions Commission of British Columbia (FICOM)
Alberta	Credit Union Deposit Guarantee Corporation of Alberta (CUDGC)	Alberta Superintendent of Financial Insitutions (ASFI)
Saskatchewan	Credit Union Deposit Guarantee Corporation of Saskatchewan (CUDGC)	CUDGC, mandated by the Province of Saskatchewan
Manitoba	Deposit Guarantee Corporation of Manitoba (DGCM)	Financial Institutions Regulation Branch (FIRB)
Ontario	Deposit Insurance Corporation of Ontario (DICO)	Financial Services Commission of Ontario (FSCO)
Quebec	Autorité des marches	Autorité des marches financiers du

	financiers du Québec (AMF)	Québec (AMF)
New Brunswick	New Brunswick Credit Union Deposit Insurance Corporation (NBCUDIC)	Risk Management Agency of New Brunswick
Nova Scotia (NS)	Credit Union Deposit Insurance Corporation of Nova Scotia (NSCUDIC)	Financial Institutions Division of the NS Department of Finance
Prince Edward Island (PE)	Prince Edward Island Credit Union Deposit Insurance Corporation (PEICUDIC)	Department of Environment, Labour and Justice (Financial Services section)
Newfoundland and Labrador	Credit Union Guarantee Corporation (CUDGC)	Government Service Branch, Financial Services Regulation Division

Source: Taken from each of the Deposit insurance providers websites

Francophone CUs in Canada are referred to as Caisses Populaires. These primarily exist in Quebec, and certain communities in Ontario, Manitoba, and New Brunswick. The large majority of Caisses Populaires are part of the Desjardins Group, which holds the largest association of CUs in North America. Much larger than any one Canadian CU, this group primarily operates in the provinces of Quebec and parts of Ontario and is active throughout North America and developing countries (Goth et al. 2012). The Desjardins Group operates a range of subsidiary organizations that offer financial products and services such as real estate, venture capital funds, insurance, and security. Due to their difference in size, history and the way that they are regulated compared to other Canadian CUs, the Desjardins Group of Caisses Populaires are outside the scope of this thesis.

Outside of Quebec, CUs are represented regionally by trade associations called Centrals or Federations. These organizations act as payment processors, advocate for the collective needs of provincial CUs, and maintain a liquidity pool that covers cyclic variations. Centrals are further represented nationally by the Credit Union Central of Canada (CUCC). With supportive input from the CUCC, the Canadian federal government amended Canada's *Bank Act* to support the creation of CUs under federal jurisdiction (Canada Gazette 2012). CUs have been slow to embrace this option, with only one CU attempting to change jurisdiction in April 2015 (Shecter 2015). This avoidance may be attributed to stricter regulations and higher scrutiny in the federal jurisdiction (Shecter 2015).

2.3 The Credit Union Difference

Operating in the same field as banks and financial crowns, CUs offer many of the same services to the same people. Like banks, CUs operate in the private sector, with no direct government involvement. However, similar to Canada's financial crowns, CUs were initially developed to address a market failure, and also tend to be more risk-averse than organizations that focus on quarterly earnings (Liew & Grant, 2014).

Notwithstanding their similarities, CUs are also unique from both banks and financial crowns. Differences in governance structures, member preferences, methods of capitalization, and size result in different income sources and cost structures. Bank earnings are largely realized from non-income sources such as capital market activities and service charges, and Crowns have access to low-cost borrowing through the Government of Canada. In contrast, CUs rely on generating much of their earnings from interest income. Each CU's cost structure also differs, based on their membership preferences for services. For instance, many CUs continue to operate full-service branches in smaller communities, and support their local communities through philanthropic donations (Fairbairn et al. 1997).

CUs behave differently from banks. Although customer service is important in banks, banks have a history of exiting smaller communities, using international call-centers, and adopting a greater online presence, resulting in lower costs in relation to assets than generally exist for CUs (Liew and Grant 2015). One example of this was the recent announcement that the Bank of Nova Scotia planned to cut 1,500 jobs in a restructuring effort aimed at focusing the company on higher-growth areas (Schecter 2014).

In recent years CUs have been purchasing branches in western Canada as the banks withdraw from smaller rural communities. For instance, from 1999 to 2004 in Manitoba, the number of bank service points decreased by approximately 24 percent, while CUs, already with branches in many of these same locations, increased their total number of branches by approximately 10 percent (Fairbairn 2012). In contrast, CUs are directly linked to their communities and thus support their communities' economic development (Fairbairn et al. 1997). CUs benefit from vibrant communities and regularly participate in the community in ways that will support the community's growth. Local money deposited in CUs is re-invested and circulated in the local communities through local loans, community support and enhanced member services and rates. As one executive from this study stated, while banks are engines of the economy, CUs are "engines of the local economy" (Executive B).

2.4 Regulatory Changes

The recent financial crisis triggered a deep recession in Canada, due to close economic ties to the United States (Barrera 2010). Changes to American lending standards impacted credit availability in the United States which, in turn, impacted credit availability in Canada (Barrera 2010).

The financial crisis impacted consumer confidence and investment patterns. For example, a drastic reduction in liquidity in the financial markets forced CFOs of major corporations around the world to rethink traditional business investments (Campello et al. 2010), and has changed the demand for financial products. In an effort to rebuild confidence in the banking system and ensure the events triggering the crisis will not transpire in the future, governments are adopting stricter regulations.

International banking regulations are agreed upon by the Basel Committee on Banking Supervision, set in policy by the G20's Financial Stability Board (Financial Stability Board 2015). Federally these have been phased in by an independent agency of the government of Canada, the Office of the Superintendent of Financial Institutions (OSFI) (Office of the Superintendent of Financial Institutions 2012). The federal CU regulations, now covered under the most recent revision of the Bank Act, will be based on the same capital requirements that are being imposed on federally regulated banks and will be supervised directly by OSFI (Office of the Superintendent of Financial Institutions 2015). Provincial CUs, however, have different regulations that include aspects of Basel I, Basel II, or Basel III depending on the provincial jurisdiction under which they fall (Pigeon 2015). The new standards place increased pressures on each jurisdiction to provide regulations that will maintain confidence, stability and provide a level playing field for all financial services organizations.

Basel 1 focused on credit risk and the weightings used to assess a financial service organization's ability to hold the required capital to risk-weighted assets. Over time it was amended to address market risk around foreign exchange and other more risky transactions. Basel II was a revised framework comprised of three pillars. These included minimum capital requirements, supervisory review of an institution's capital adequacy, and the development of an internal assessment process and use of greater disclosure requirements to encourage sound banking processes (Bank for International Settlements 2014).

The most recent set of standards are the Basel III and they focus on capital adequacy in addressing risk. Capital is necessary in balancing off potential losses during poor business conditions. The liquidity of the capital is, therefore, an important factor in assessing risk. The Basel committee has adopted requirements ensuring adequate amounts of Tier 1, or the most liquid forms of capital. This requirement can be problematic for CUs, due to their limitations in building this type of capital since members shares do not qualify as equity. Beyond Basel standards, Canadian deposit-taking institutions are now required to monitor and report on activities related to possible criminal activities, tax fraud, terrorism and foreign policy (Liew and Grant 2015). These requirements further increase the fixed costs of financial services institutions and can become a disadvantage for smaller ones, such as CUs, that are less able to absorb the costs (Pigeon 2015).

As costs and complexity rise, Canadian CUs have also recently experienced a change in their tax situation that further impacts their competitiveness. The 2013 federal budget introduced a gradual withdrawal of a preferential tax rate that had been accessible to CUs with incomes greater than $500,000. This tax credit was introduced in the 1970s to enable CUs to compete with other small Canadian-controlled private corporations. The withdrawal of the credit was intended to increase the neutrality in the system since CUs had been receiving the tax credit and Canadian banks had not (Liew and Grant 2015).

Instead of "leveling the playing field", these regulatory and policy changes actually put CUs at a fairly severe competitive disadvantage (Liew and Grant 2015). Canada's banks are larger and are better able to build capital than CUs. They also have access to more favorable tax rates through their capital gains. And financial crowns, the other main competitors for CUs, are not obliged to follow the same capital constraints. How are CUs able to compete, given these challenges?

2.5 Growth Response

Growth is one way to respond to the consequences of these pressures. Strong growth will increase the asset base which enhances financial stability for the CU, and lead to better services and prices. Growth also brings about economies of scale which would be expected to increase organizational profitability through generating efficiencies. However, some evidence suggests that improved efficiencies brought about by mergers are not superior to those achieved through internal growth (Ralston, Wright and Garden 2001).

While CUs were engaged in ad hoc mergers and consolidations prior to these pressures due to changing community demographics and structures, CUs have been increasingly undertaking mergers and consolidations in response to the aforementioned regulatory and policy pressures (Anderson and Liu 2013), resulting in organizations that bear little resemblance to their earlier local, community-embedded forms. The number of CUs has decreased while the size of the average CU has grown dramatically. Recent statistics show that from 1993 to 2012, the number of Canadian CUs dropped by approximately 34 percent (Brizland 2013). Meanwhile, over the same two decades, the average membership in Canadian CUs almost quadrupled from 3,895 to 15,248 and their average assets increased from $36.1 million to $438.3 million (Brizland 2013). The top ten Canadian CCUs account for over 45% of total CCU assets (Brizland 2013). These mega-CUs offer strong competition to charter banks and financial crowns within their provincial jurisdictions. As of September 29, 2014, Canadian CUs outside of Quebec with the top reported assets were as follows:

Table 2 - Top 10 Canadian Credit Unions

Ranking	Top 10 Canadian Credit Unions (Outside Quebec)
1	Vancity (British Columbia)
2	Servus Credit Union (Alberta)
3	Coast Capital Savings (British Columbia)
4	Meridian Credit Union (Ontario)
5	First West Credit Union (British Columbia)
6	Conexus Credit Union (Saskatchewan)
7	Steinbach Credit Union (Manitoba)

8	Affinity Credit Union (Saskatchewan)
9	Assiniboine Credit Union (Manitoba)
10	Cambrian Credit Union (Manitoba)
from: Largest 100 Credit Unions Retrieved 19/08/2014 from Credit Union Central: http://www.cucentral.ca/SitePages/Publications/FactsAndFigures.aspx	

Although quite large when compared to their CU peers, these large CUs are still quite small in comparison with some of their major competitors. Canada's Big 5 banks, which are also some of the strongest banks in the world, together hold assets in the hundreds of billions of dollars (Alexander and Pasternack 2012).

This growth could lessen some distinct advantages that CUs possess. CUs, like many co-operatives, are historically comprised of individuals linked through a common bond and/or a commitment to a common project (Birchall 1997). Since members personally knew the people being impacted by their actions, they may have risked reputational damage if they shirked on their responsibilities to the community (Klinedinst 2010). The common bond in smaller CUs may enhance the loyalty of members and increase their accountability to each other. Growth has the potential to reduce this commitment to a common project because members become increasingly heterogeneous, have different reasons for joining the credit union, and may become less connected to other members than members who belong to a smaller, community-based CU.

Increasing membership heterogeneity of mutuals in the USA has been one factor linked to demutualization (Schneiberg 2014). Demutualization is the conversion of a co-operative into another organizational form through converting equity into shares or through mergers, takeovers or buyouts of non-co-operative organizations; this will generally occur when a co-operative has been having difficulties (Fulton and Girard 2015). Growth can also impact the member-owner connection. Larger CUs with many branches may become less connected to each community, and the member-owner link may be diminished when an individual member's vote is one in thousands rather than one in hundreds, reducing responsiveness to both member and community needs.

2.6 Governance Response

The increasing heterogeneity in larger CUs also creates a membership base with more complicated and diverse needs. Without the proper knowledge about how the CU should respond to these complexities, a CU board of directors risks crucial missteps in decision-making and setting a strategic direction. Lack of critical board competencies can decrease the perception that they are able to lead the organization, and impede their ability to effectively monitor management. As a result, nominating committees are often used to select candidates that meet specific competencies, and the membership then elects their board members from that list (Goth et al 2012). It has been further recommended that, instead of the membership electing board members, they elect an independent governance committee that selects and appoints the board of directors; this committee would act as an extension of the membership, and the appointed board would be chosen based on competencies and other factors important to the membership (Goth et al 2012).

Central 1, the trade association governing CUs in British Columbia and Ontario, has recently proposed these amendments to their bylaws. In addition to their skill-based board recruitment system, these amendments will allow board members to appoint up to two additional board members should the "required skill sets not be available from officers and directors of the member credit unions who have been elected, as determined by the Board" (Central 1 2014, 6). Appointment of board members may be a logical step in managing the risks of these multi-million dollar organizations; however, it is also a large step away from the traditional democratic and community-based roots of CUs.

2.7 CU Decision-Maker Response

To summarize, regulatory changes in the financial services industry have prompted increased growth in CUs and direct competition with banks, resulting in greater complexity and associated governance challenges. CU decision makers face a situation where previous locally-based strategies are becoming unsustainable, or even irrelevant. For example, one advantage that early CUs had over the banks was the ability for a manager to loan money based on an individual's reputation (Klinedinst 2010). The riskiness associated with such a loan was lower since managers knew the loan recipients and loan recipients were owner-members of the CU and had an interest in maintaining their reputations. Today's CUs have grown to the point that strategies based on these advantages are no longer as relevant.

In such circumstances, CU decision makers may be influenced by banks as they search for what they perceive to be successful practices within their industry (Bager 1994). Many CU executives in my study gained work experience in banks or other investor-owned corporations, or had received their education within business schools that tend to be dominated by training in traditional investor-owned governance structures and business models. This experience could result in a CU responding with strategies that would be appropriate in an investor-owned bank, such as placing greater emphasis on profit maximization, expanding market share through aggressive growth, mergers and acquisitions, and/or finding and exploiting efficiencies and economies of scale through closing unprofitable branches and/or laying off employees.

This philosophy and approach differs from traditional CU practices. Western Canadian CUs have developed strong ties to their communities and adhere to their democratic values of equality and equity amongst members. Many CUs pride themselves on how they treat employees, as employees are also often members of the CU. Rather than existing solely to build shareholder value, CUs aspire to deliver high quality and low-priced financial services to their members, and to build members' communities. Indeed, CUs are often the last business standing in many rural Western Canadian communities. For instance, as banks were reducing services and withdrawing from rural Manitoba communities, CUs were purchasing the branches from the banks and investing into infrastructure in those communities (Fairbairn 2012).

These two ways of thinking can often be complementary. For instance, finding efficiencies will ensure greater membership benefits through providing low interest rates on loans, which encourages local investment. Creating economies of scale can allow a CU to re-allocate savings to increase the number of financial services offered to members, or to offer member patronage refunds. This can ultimately contribute to building and improving members' quality of life in their communities.

However, there will be times when the two goals may conflict; when the community-focused co-operative response and core values may run counter to efficiency norms. For example, CU decision makers may struggle over the decision to close an unprofitable branch. Indeed, a bank would not hesitate to close an unprofitable branch rather than accept it as an ongoing liability. As mentioned, the adoption of this logic in banks within the financial services industry has been evidenced by the rapid closure of bank branches in many smaller communities in western Canada (Halsath and Ryser 2006; Fairbairn 2012).

CUs do not have quarterly obligations to maximize profits and increase shareholder value; however, they still exist to offer the services that their members need, and at competitive prices. As CUs get larger through mergers, unprofitable branches could be seen to reduce efficiencies.

On the other hand, the closing of an unprofitable branch may be harmful to some CU members, not to mention harmful to the community. While it may increase their overall competiveness, a closure of any CU branch could break trust with their local members, harm the reputation of the CU, and ultimately be in opposition to a community logic.

How, then, do CU decision makers perceive and navigate these potential competing pressures? In the next section I will outline some theories and frameworks to guide an empirical exploration of this question.

CHAPTER 3: THEORETICAL CONTEXT

3.1 Chapter Overview

As outlined in the previous chapter, CU decision makers are likely to experience competing pressures to become more bank-like through a focus on growth and efficiency, and at the same time to retain other social objectives like supporting community through providing local employment and economic development. This chapter discusses how research in new institutional theory, governance, and hybrids can provide insights into how CU decision makers are likely to perceive and respond to these pressures.

3.2 Institutional Logics

Opposing pressures faced in organizations, such as those that CU decision makers are experiencing, have been studied in the literature as outcomes of conflicting institutional logics. Institutional logics (ILs) are “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (Thornton and Ocasio 1999, 804). When individuals encounter change, complex situations, or new ideas, they perceive and frame the issues through this lens, responding with the development of organizational strategies and practices that are consistent with the dominant institutional logic (Thornton, Ocasio, and Lounsbury 2012).

As organizations experience growth and change, ILs influence their development through allocating decision-makers’ attention in a manner consistent with accepted norms (Thornton and Ocasio 1999). For individuals, ILs provide social identities, goals and schemas which both constrain and support behaviours and help frame perceptions (Thornton, Ocasio, and Lounsbury 2012) by providing ready-made means-ends prescriptions that focus on specific and appropriate issues and solutions (Thornton and Ocasio 2008).

3.2.1 Hybrid Organizations

If there is more than one IL present in an organization it will complicate this dynamic. Individuals in these “hybrid organizations” will have different lenses through which they perceive organizational situations (Pache and Santos 2010). Their choice of actions are, consequently, less predictable; however, they also have a potential for greater innovation as they learn to combine elements of each IL (Battilana and Lee 2014).

CUs are examples of hybrid organizations. They exist to provide high quality financial products and service solutions to their members at competitive prices. This existence; however, is a result of a group of people committing to a common ideology, and their success has been a result of their membership's shared belief in trust, honour and reciprocity. These community-based values have a strong impact on the direction of an organization (Battilana and Dorado 2010) and are consistent with examples of a community logic (Marquis and Lounsbury 2007; Almandoz 2012). In other words, CUs are subject to economic practices, rules and norms that are shared by all organizations operating within the financial services industry (financial IL) more broadly, such as investor-owned firms, but are guided by values and principles that support and promote the wellbeing of their communities through local social and economic development (community IL).

These two logics can often be mutually complementary, prescribing similar actions that produce similar outcomes. For example, CUs may embrace high quality customer service because it increases profits (financial IL) or they could adopt high quality customer service to improve the experiences of their members (community IL), which may still lead to higher profits. In this case the actions and outcome are the same, regardless of which IL prompted them to act in this way, or the intended outcome.

3.2.2 Conflict in ILs

However, conflict is often an assumed condition when multiple logics are in play (Kraatz and Block 2008) since the adoption of practices that support one logic could directly oppose those supporting the other (Salancik and Pfeffer 1978). Indeed, the presence of the financial IL and community IL in organizations has also been shown to result in conflicting demands on organizational actors (Marquis and Lounsbury 2007; Almondoz 2012). This is understandable when one considers the differences in organizations that are traditionally associated with these ILs. Organizations that are predominantly guided by financial ILs are influenced by principles associated with maintaining profitability through finding efficiencies and increasing market share. Clearly defined processes and strict command-and-control hierarchies are norms in organizations sharing this logic, due to the highly regulated nature of the financial services industry. This type of hierarchical structure exists in CUs. When adhering to a financial logic, organizational success can be measured through market positioning and various financial ratios. This logic has also been referred to as a banking logic (Kent and Dacine 2013), or a corporate logic (Zeff 2003).

In contrast, organizations driven predominantly by a community IL adhere to principles promoting a commitment to community values, including investment in local communities. Organizations that tend to have this focus are often charitable organizations that have been developed to meet a social objective. Profits and efficiencies in these organizations are seen as a means to an end rather than an end in itself.

These pressures have been explored in research on co-operatives as the struggle between associative and membership needs (Ketilson 2006; Coté 2002). It is a cyclical problem in which a co-operative, to meet its associative needs, will conform to industry norms through mimicking the models and strategies of its corporate counterparts. Through this, the co-operative loses its responsiveness to members (membership needs) and acts less like a co-operative. As a result, they lose their ability to effectively compete with conventional businesses and lose their membership (Coté 2002).

CU decision makers are exposed to each of these ILs and may face the pressures where their beliefs and prescriptions conflict. For example, it may be financially prudent for a CU to close a non-profitable branch to ensure greater organizational efficiency and profitability (financial logic); however, sustaining an unprofitable branch will ensure local members' lives are not disrupted and would ensure readily available services for their members (community logic). When encountering these situations for the first time, it is likely that CU decision makers would struggle with these decisions. Once addressed; however, the outcome of these conflicts could guide future decision-makers and impact the direction of an organization.

How, then, do CU decision makers experience and navigate pressures from these different ILs when they are faced with them? In earlier variants of new institutional theory, such conflict was often understood as representatives from different factions actively engaging in power struggles, each adhering to different ILs (Jay 2013; Zilber 2002). An example of this was that of an Israeli rape crisis centre where conflict was experienced through two groups who supported opposing therapeutic and feminist logics (Zilber 2002). A similar manifestation of conflict was observed in the field of medical education through the clash of opposing coalitions supporting the care and science logics (Dunn and Jones 2010).

Consumer co-operatives have been known to experience a form of paralysis when trying to reconcile their co-operative ideals with the realities of running a supermarket (Briscoe 1971). There are two types of leadership responses to these pressures identified in this literature: the *trader* and the *idealist* (Briscoe 1971). *Traders* address their decisions through adhering to economic principles and will generally see the co-operative principles as a barrier to success. In contrast, *idealists* adhere strictly to their co-operative principles and will compromise their economic principles. Neither of these approaches in isolation will arrive at the best outcome for the co-operative (Briscoe 1971).

3.2.3 Factors Influencing the Respective Strength of ILs

Recent research tends to show decision-makers in hybrid organizations responding to these pressures in different ways, depending on the degree to which others within their organization identify with each institutional logic, and the comparative strength of each logic (Pache and Santos 2013; Besharov 2014; Kodeih and Greenwood 2014). Other factors that influence the impact of these pressures include organizational structure or design and human resources practices. These are discussed below.

3.2.3.1 The Strength of Competing Logics

The comparative strength of logics will vary based on the level of the logics' contribution in organizational decision making (Heimer 1999) and the political strength of those in support of the logics (Yu 2013). For example, if a CU's senior decision makers, as well as the organization's mission and values, are strongly rooted in a community IL, that IL is likely to have a more dominant role in the organization.

Some ILs may be more or less influenced by other logics depending on their "permeability" or how loosely coupled or ambiguous they are (Kent and Dacine 2013). An IL that is more ambiguous or holds internal contradictions is more "open" to transformation than a "strongly articulated alternative logic" (Kent and Dacine 2013, 763). As actors within the organization seek to seek to interpret the ambiguities, they are more likely to draw on a known logic than create a novel approach (Greenwood et al 2011). Well-established ILs will provide clear criteria than can be used by institutional actors in reconciling contradictions (Kent and Dacine 2013).

Based on this concept one could conceivably assess two competing ILs and offer a prediction as to which logic might eventually dominate the other through comparing the permeability of each logic. The banking logic is comprised of well-established quantitative measures (Thornton and Ocasio 2008). In their recent study of the microfinance industry, Kent and Dacine (2013) found the financial logic to be less permeable than the development logic due to its low ambiguity and tighter coupling. As a result there was a long term institutional shift of power in favour of the financial logic. This trend is often discussed as 'mission drift' and is commonly observed within the industry (Battilana and Dorado 2010).

Similar to the development logic, a community logic would have less well-established metrics and is focused on principles and relationship building. Based on the concept of permeability, it could be hypothesized that the financial logic would have a greater influence over the actions of decision-makers than the community logic.

3.2.3.2 Organizational Actor Response

Actors within hybrids are not only influenced by but also influence the balance of logics within organizations (Thornton 2004). They have the ability to challenge practices, assumptions, and values that are deemed appropriate (DiMaggio 1997). Especially within hybrid organizations, actors exercise a degree of agency through their ability to selectively choose from the perceptions, processes, and prescriptions associated with different logics (Besharov and Smith 2014).

What factors determine the response that each actor takes? Pache and Santos (2013) suggest that, although the actions of the individuals are vital in determining the organization's response to institutional logics, there has been little exploration into the micro foundations of institutional logics. They suggest that individuals are motivated mainly by social acceptance concerns, and when observing perceptions and responses to the hybrid condition at the micro-level, individuals are predicted to respond though "ignorance, compliance, defiance, combination, or compartmentalization" (Pache and Santos 2013: 15). Moreover, they propose that an organizational actor's adherence to each logic will shape their response to competing logics, depending on "hybridity of the context", or the relative strength of competing logics in the organization (Pache and Santos 2013: 16).

The degree to which individuals adhere to each logic is based on a combination of background factors including upbringing, social exposure, education, work experience and volunteer experience (Thornton, Ocasio and Lounsbury 2012). As such, individuals can adhere to many different logics to various degrees. Within their model, Pache and Santos (2013) outline the responses to two unspecified conflicting logics based on the degree to which an individual is novice (does not adhere), familiar, or identifies (highly adheres) with each respective logic. For example, individuals who are novice with respect to both logics would likely be indifferent to both and are labeled "ingenuous members" (Pache and Santos 2013: 17).

Individuals who strongly identify with multiple logics are labeled as "hybridizers." According to the authors, "hybridizers" are in a position where they can combine and adapt logics in ways that satisfy the needs of each (Pache and Santos 2013: 31). The complexity of opposing logics may be experienced as internal dissonance by such individuals as they reframe and incorporate incompatible expectations and contradictions from each logic in efforts to satisfy each of them (Golden-Biddle and Rao 1997).

3.2.3.3 Structural Factors

The least researched area in which institutional logics can influence and be influenced by organizations is through organizational structure and design. HR practices will influence organizations and employees in this way. The use of deliberate hiring and socialization practices helped sustain a balance of financial and development logics in the microfinance field (Battilana and Dorado 2010). Similarly, the creation of shared identity aspirations, or the identity that the organization would like to have, helped mediate opposing logics to enable a constructive balance of logics in French business schools (Kodeih and Greenwood 2014). As such, organizational culture is an important factor that will impact an employee's response.

Organizational structures can also be used to compartmentalize opposing logics thereby isolating them from identity struggles and conflict (Kraatz and Block 2008), or to support confrontation between logics resulting in oscillation and/or innovation (Jay 2013). Such confrontation between logics has been shown to be beneficial. For example, sustained productive tension from conflicting logics in a group of microfinance branches resulted in greater success than in those branches that supported only one logic (Canales 2013).

Beyond the above non-coercive mechanisms, it has been suggested that organizational governance might be necessary in navigating conflicting pressures and balancing the demands of groups supporting each logic (Kraatz and Block 2008; Jarzabkowski et al 2009; Pache 2011). In support of this hypothesis, Pache (2011) found that formal structures enabled hybrid organizations to balance competing logics better than those lacking that safeguard. In her research, she examined the role of organizational members in shaping their organizations' response to opposing institutional demands. She observed that organizations that were founded by teams of individuals who identified with more than one logic were better able to mobilize resources from their different institutional environments. Those more complex organizations, however, were also more likely to experience intense internal conflicts between coalitions supporting opposing logics, with the important exception of those who had designed a formal governance structure that determined how different coalitions made their voices heard.

In Pache's (2011) study the organizations that lacked formal structures experienced conflict between coalitions favoring each of the opposing logics due to a lack of consensus around organizational purpose. Those with more formal structures in place were able to achieve a working balance that enabled one group a dominant position without sacrificing the representation of the other group's interests. This study demonstrated the importance of governance in balancing competing institutional logics. As such, there have been calls for further research on governance in hybrids (Pache 2011; Battilana and Lee 2014).

3.3 Governance

Governance has been defined as what "determines who has power, who makes decisions, how other players make their voice heard and how account is rendered" (Institute on Governance 2015, para 2). It is the "cognitive pattern or framework within which the exercise of power occurs" (Fairbairn, Fulton and Pohler, 2015).

An organization's *raison d'être* lies in the ability of a collective to surpass an individual's decision-making limitations (Loasby 2001) at a lower cost than if performed by an individual (Coase 1937). Individuals have cognitive and physical limitations that limit their ability to accomplish time-bound and complex tasks (e.g., bounded rationality; Simon 1955) and are influenced by personal biases (Tversky and Kahneman 1974). Organizations address this limitation through collectively harnessing the knowledge and information of individuals toward a common outcome (Loasby 2001). However, beyond just simply pooling individuals' knowledge, organizations are made up of systems with rules and authority structures to prioritize and share information (Kaplan 2008). Thus, organizations act as "interpretative systems" (Daft and Weick 1984; Loasby 2001) though establishing operating rules and priorities. This results in some stakeholder's ideas and frames becoming more important than others and may bring about competition as individuals and groups compete with each other over the ability to influence the organization's direction (Kaplan 2008).

In this area, the relative power of the stakeholders will decide what frames will influence the organization's direction. In theory, a CU's structure is designed to have its rules and priorities established and driven by its membership through a democratically elected board of directors. In reality, the senior leadership team will also have substantial influence over the organization's direction through their day-to-day actions.

A CU's direction and success is greatly influenced by the balance of power and authority possessed by these two groups, and how various strategic interdependencies and cognitive biases issues are resolved. A key strategic interdependency between any board and its managers is the principal-agent problem, or getting the managers to act in the best interest of the owners rather than themselves (Schleifer and Vishny 1997). In CUs, the principal-agent problem, or the control problem (Cook 1995), is concerned with getting the manager to act in the best interest of the members. CU board members (the principals) are elected representatives of the members and they, in turn choose the executive team, or managers (the agents). On these types of boards the managers will generally have more in-depth knowledge of the functions and operations of the organization and the board's knowledge may be limited to the information that is made available to them (Spear 2004). Management's years of experience managing similar organizations and their thorough knowledge of the CU and the complexities of its environment result in a balance of power that favours managers over members (Spear 2004).

Other factors can also increase the information asymmetry in today's CUs. As a CU's membership grows in size and diversity, it can become difficult for board members to connect with the membership to fully understand its needs. With employees in the branches reporting in on various metrics, managers have the ability to monitor these needs in an organized manner. As a result, much of the board's information about the CU and the membership is filtered through the managers.

Traditional ways investor-owned banks address the principal-agent problem include incentive structures such as issuing shares and performance bonuses. These can be less relevant to CUs. In addition to the fact that CUs lack tradable shares, CUs lack a single objective like profit-maximization, and have several interrelated and sometimes conflicting goals. Moreover, while banks report quarterly on their financial metrics, many CU objectives are more complex and ambiguous, or may have longer feedback loops. These differences make the creation of targeted managerial incentives more complex, because the definition of organizational success is less clear and outcomes are more difficult to monitor (Fulton & Pohler 2015).

These challenges make the formal governance structure and the establishment of accepted norms important for CUs. The linkages from the members to the board and the board to the executives impact accountability and communication and determine who holds the power in the CU. Board members who do not feel accountable to or receive feedback from the membership will be less likely to act in the interests of the members. This accountability is enforced through bylaws and election rules, and feedback can occur through regular meetings and reports as well as other informal communication structures. Voter apathy and/or inefficient communication are likely to reduce the efficacy of these linkages.

In the same way, executives who do not feel accountable to or receive feedback from the board will be less likely to act in the interest of the board. Accountability is enforced through employment contracts and feedback occurs through regular meetings, reports and other informal communication structures. The respective knowledge of both groups will impact these linkages. For example a board that is less knowledgeable than its executives will have less information and feel less confident in making decisions that are counter to the executives' wishes, holding executives less accountable for their actions. This deficiency would enable the executives greater influence in determining the CU's direction through allowing them to choose which information gets prioritized and how it gets communicated.

In summary, the governance structures, practices and norms of a CU will ultimately be the most important factors in determining who has the power in the organization, which ultimately determines who makes decisions, how other stakeholders make their voices heard, and how the principals hold the agents accountable for meeting the desired objectives.

3.4 CU Governance Basics

The direction of a CU is heavily impacted by the power and authority structures within the organization. These power and authority structures are also influenced by the formal and informal rules and norms which determine who has the power to decide what in the organization. For these reasons, it is important to understand the formal organizational and governance structures of Canadian CUs.

The basic CU organizational structure is made up of a board of directors that is elected from amongst the membership of the CU. This board hires a senior manager (CEO) who, in turn, hires and manages an employee base which directly serves the membership's needs. This direct feedback loop is unique to co-operatives, as the members-owners are also the users of the services of the organization. The structure, also referred to as the centralized control structure (Hammond Ketilson and Brown 2011) is illustrated in figure 4-1.

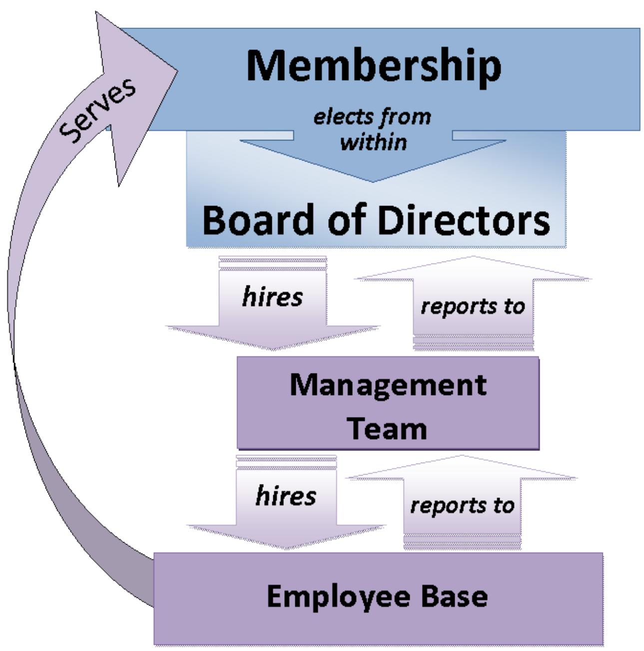

Figure 1- Centralized CU Organizational Structure

3.5 Recent Variations

In response to an increasingly complex and changing regulatory landscape, as well as their own internal challenges, co-operative governance structures and practices have been evolving to better meet these new demands and circumstances (Cornforth 2011). The increasing size and heterogeneity of a CU's membership, as well as rising complexity and regulatory demands present challenges that could reduce the functionality of more traditional structures. Larger co-operative memberships are likely to be more diverse which will mean there will be greater differences in their needs for goods or services (Butler 1988). Communication between each individual member and the board is less feasible and members may be less inclined to participate in organizational affairs. As such, it is important that a well-developed structure exists to provide the proper mechanisms to ensure member control and engagement in these larger organizations (Butler 1988).

Although there is no ideal organizational structure, there are benefits and drawbacks to different control structures. In addition to the centralized control structure shown above, two other variations are common in CUs: the delegate control structure and the constituency control structure (Hammond Ketilson and Brown 2011). In the delegate control structure, members elect delegates either regionally or on an at-large basis. The constituency control structure is similar to the centralized control structure except that members will vote for board members within their regions.

Some of Canada's CUs have developed policies and procedures to ensure board competency, navigate complexity, mirror their membership's geographic and demographic diversity and retain their democratic nature.

3.5.1 Ensuring board competency

A board that has the required knowledge skills and abilities will generally strengthen a CU's performance (Brown 2007). Lack of available technical expertise on the elected board will lessen their ability to effectively steer the direction of the organization vis-à-vis management. In response to this potential problem, some provincial regulators have implemented, or are currently considering implementing policies that ensure specific competencies exist on CU boards. Some CUs are responding to this issue and/or the related regulations by developing their own measures to ensure board competence.

Competent board members can be developed and maintained through targeted recruitment, training, and monitoring (Brown 2007). Targeted recruitment can be administered as an internal response through nominating committees. These committees will seek out new qualified nominees and assess all nominations based on required competencies. They then recommend their chosen candidates to the membership prior to board elections. Although this process increases the likelihood of electing board members with the necessary knowledge, skills and abilities, this process has the potential to undermine the CU's democratic nature through procedural interference by current board members and/or management. This situation has recently surfaced in a non-financial Canadian co-operative, Mountain Equipment Co-operative (MEC). MEC has introduced restrictive criteria in its board nomination bylaws, which limits the ability for an average member to be elected to its board of directors (Silcoff and Strauss 2015). This practice can also decrease the perceived legitimacy of the board among the membership since the board members may not be seen as being elected through a fair, democratic process.

Some CUs also choose to increase board competency through ongoing assessment and education of board members and those considering board positions. For example, Affinity Credit Union requires that their delegates maintain a minimum competency level in several areas such as financial literacy, strategic planning and community development (Affinity Credit Union, 2015). Although costly and time-consuming, this process reserves the right of all members, regardless of previous education or experience, to be nominated to the board of directors without procedural interference.

3.5.2 Navigating complexity

The growing complexity facing today's large and growing CUs often requires the decision makers to have targeted in-depth knowledge in one or more areas. Many CUs address these issues with the establishment of committees comprised of board members, executive members and general CU members. These committees generally report to the board of directors and make recommendations in specialized areas such as human resources, risk management and governance. For example, Coast Capital Savings Credit Union has an Audit and Finance Committee, Governance and Member Relations Committee, Human Resources Committee, Risk Review Committee and a Nominations Committee (Coast Capital Savings Credit Union 2015).

3.5.3 Reflecting membership diversity

As a credit union grows through mergers, there is a threat that the needs and voices of minority groups and smaller branches might become less salient. To ensure that the board is representative of the membership, some CUs make use of districts or regions in their organizational structure. Members choose to elect one or more board member(s) from their own district. Once elected, however, these board members are expected to represent the interests of the entire organization rather than just that of their own district. Although largely based on geographical areas, districts could also include a specific type of member such as online-only members or members from a specific ethnic group. For example, Affinity Credit Union has designated one of their districts a First Nations district. This district has locations on or near reserves and has kiosks in community stores. Through establishing this district, Affinity Credit Union is able to ensure this important demographic has a strong voice in the organization (Martin 2012).

While the use of districts in organizational governance can ensure a better representation of the membership on the board, it can also result in an extremely large board of directors as the organization grows. To mitigate this issue, some CUs have established more than one level of elections in which the membership elects delegates from their district who, in turn, elect representative(s) from their ranks to serve on the board of directors. While still holding to the one-member one-vote principle, individual members are no longer directly electing the board of directors.

3.5.4 Reinforcing democracy

With all of the changes being implemented in today's CUs, what happens to the democratically-owned local control that is core to a CU's co-operative principles? As discussed above, many steps that serve to strengthen the organization can also risk diluting its democracy. Additionally, low membership participation and engagement decreases the influence of members over their elected board which, in turn, can decrease the legitimacy of the board (Spear 2004) since the elected board was not elected by a majority of the membership. Therefore, it is in the interest of the CU to ensure that its democratic nature and member participation is reinforced.

Increasing membership participation is one means through which a CU's democracy can be strengthened. As such, CUs often reach out to their members through newsletters, social media, polling, open forums, financial literacy programs, and other forms of communication. There are several example of CUs adopting these initiatives. Servus Credit Union in Alberta publishes a quarterly online newsletter with updates on the credit union and helpful articles relating to financial services. Conexus Credit Union in Saskatchewan is actively engaged in Twitter, updating its feeds with information on local events and helpful tips. Atlantic Central, which represents CUs in the Atlantic Provinces, offers a free financial literacy program to local schools, women's shelters and other organizations. Noventis Credit Union in Manitoba has online member surveys about membership experiences conducted both in their branches and online.

Membership representatives can also be used to enhance the democratic nature of a CU. These individuals are chosen from their communities to work regularly with board members and can enhance the flow of information in both directions. Through their roles they communicate community concerns and ideas with board members and conduct CU-related discussions with their communities, thereby strengthening the linkage between the board and the membership.

Transparency is a crucial component of a democratic organization. In a CU the members need to be aware of the performance of the organization and the board to be able to effectively participate in monitoring. As such, CU director and CEO remuneration, meeting attendance, and a report on the CU's profits and strategic direction are generally provided to the membership regularly. Additionally, reporting measures such as external auditing committees are used in the larger CUs to increase accountability of board members and the CU's executives to the membership.

CHAPTER 4: METHODOLOGY

4.1 Introduction

The aim of my thesis initially was to understand how CU decision makers perceive and respond to the increasing pressures they face in their organizations as a result of changes in the external environment and to regulatory policy in the financial services industry. In particular, I am interested in the impact that the governance of the CU has on how senior decision-makers perceive these pressures and the actions a CU will undertake. Given the nature of the research questions, I explore these issues in a qualitative interview-based case study of one credit union that is growing quickly through mergers.

4.2 Participant Selection

It was important to select a CU with a community focus that had been recently facing the pressures associated with growth and change. All Canadian CUs had been experiencing changes relating to the industry and regulatory situation. The Canadian CU involved in this study, (hereafter referred to as CCU) was chosen based on its size, its growth stage, and its relationship with its community. CCU was one of Canada's largest CUs and it had recently undergone an important merger that would have introduced significant governance challenges. Its purpose, vision and mission all demonstrate a strong community-focus, and its growth was increasingly putting it in direct competition with major investor-owned banks, as well as with federal crown corporations. The pressures facing CCU were quite substantial.

Thirteen decision makers at CCU were interviewed. This included the entire executive management team as well as five board directors. The five board members included directors from the smaller credit unions that merged with CCU and ended up on the CCU board, as well as directors who were part of the CCU board prior to the mergers. Both executive and board level decision makers were included in the study to gain a greater understanding of how the perceptions of the board and executives might be similar and/or different as it relates to different institutional logics and/or possible conflicts; it also allowed an exploration of the potential impact of the power dynamics that existed between managers and the board created by the governance structure, and how it impacted decision-making in CCU.

The executives consisted of individuals who lead each of the CU's functional areas. Past experiences and backgrounds differed between each executive. While most of them had a long history with CUs or other co-operative organizations in general, most had also obtained work experience in investor-owned corporations or government crown corporations. Each of the executives had received extensive training in strategically managing competitive, for-profit businesses through university education and/or through other internal training and/or professional development, and many had also received formal training on the co-operative model. These varied experiences would have exposed them to different dominant logics over the course of their careers. This diversity in backgrounds is important because those sharing the same dominant logic might be more likely to perceive new circumstances through the same lens, resulting in a homogenous outlook.

Since the way that individuals perceive and respond to organizational logics differs as one becomes more familiar and/or identifies more with each logic (Pache and Santos 2013), special effort was made to include board members with various tenures at CCU. The resulting group included board members with decades of experience with CCU, as well as some that had recently joined CCU as a result of recent mergers.

4.3 CCU's Governance

CCU had implemented several measures in efforts to mirror their membership's geographic and demographic diversity, retain their democratic nature, ensure board competency and navigate complexity. For confidentiality purposes, this report will not discuss each of their measures in detail; however, the main points will be described to assist the reader in understanding the design of the CU.

Although it had grown significantly, both internally and through strategic partnerships, attempts to retain the democratic nature are evident in CCU's structure and procedures. CCU has adopted an organizational structure that is designed to strengthen the connection between the board and its members while enhancing the board's representativeness. Its membership is divided into several districts based on geography and other minority group considerations. Each district elects its own delegates who, together, form the district council for each district. Those delegates elect one or more director(s) from their district council, based on the district's size, to the Board of Directors. The figure below illustrates CCUs Organizational structure.

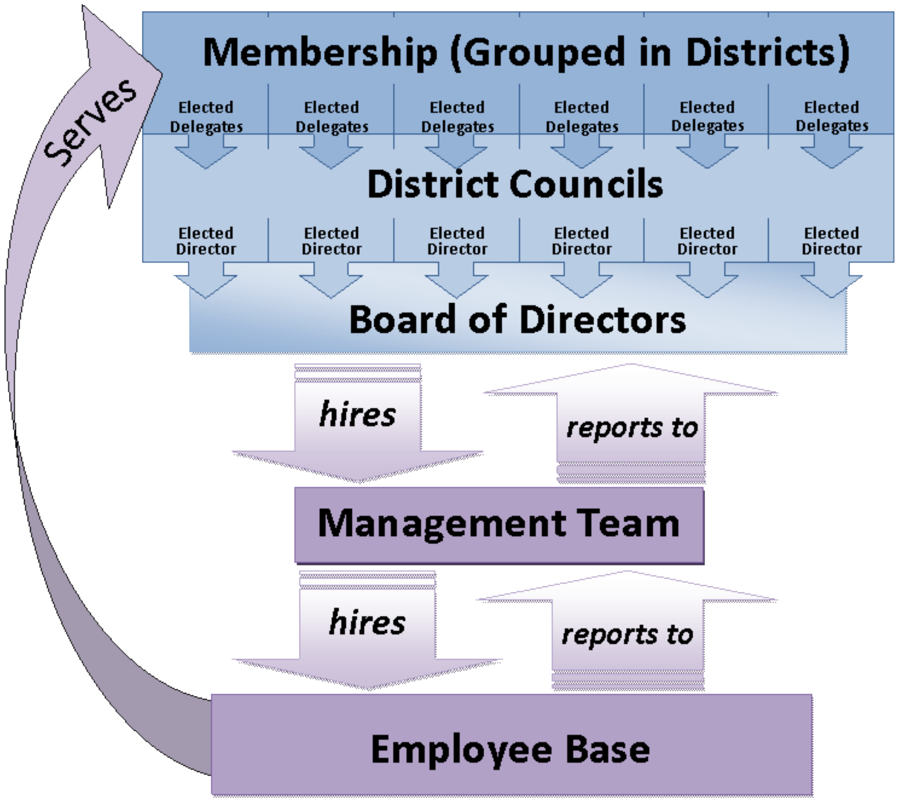

Figure 2 - CCU's Organizational Structure

Through the use of districts, branches in smaller geographical regions are still granted at least one voice on their local district council and, in turn, at least one vote in director elections. This ensures that, even as the organization grows, smaller groups remain linked to CCU's Board of Directors. The resulting structure encompasses many people. At the time of this study CCU's structure held over 100 elected delegates and its board consisted of more than twenty directors. Compared to the traditional CU structure, this can be quite costly and can increase the time involved in making larger decisions.

Education of CCU's leaders begins at the delegate level. Once elected, CCU delegates are encouraged to enhance their knowledge in related areas through internal and national CU training programs. These individuals could be considered board members-in-training, as CCU assists them in attaining the competencies that they need in order to contribute successfully to their board and CCU as a whole. Their knowledge assists them in acting as a central conduit between the membership and CCU's board of directors and enables them to make educated contributions to CCU's direction. Scheduled meetings bring together the delegates from around the province to discuss local concerns and to meet with the board. This strengthens the feedback loop between the membership and the board.

Once elected, board members receive ongoing relevant training to support them in their positions. This strengthens their ability to provide valuable input into the direction of CCU.

CCU has also established several joint committees to assist them in navigating the complexity in their industry. These committees take advantage of the organization's specialized knowledge and enable greater knowledge transfer between the executive team and board representatives.

Thus, through CCU's governance structure, they have strived to ensure an educated, representative board of directors with a reinforced, democratic linkage to their large and growing membership. Additionally, this board has the additional support of specialized committees and educated, connected membership delegates. All of these actions help to strengthen the power and knowledge of the board relative to the executive team.

4.4 Data Collection

Contact with participants was initiated through one of the executives and organized through an administrative staff member. Although the intent was to hold all interviews over the span of two months, participant and interviewer availability resulted in the final interview occurring approximately four months after the first set of interviews. Interviews were semi-structured and lasted approximately one hour. They were conducted by two interviewers, each with an understanding of the relevant theory and the contextual factors pertaining to this study.

4.4.1 Interview Questions

A set of five to nine open-ended questions were used to guide the interview process and are listed in Appendix 1. These questions evolved over the span of the project based on patterns in the responses. For example, the first question inquired about the decision maker's perceptions of the effects of the 2008 financial crisis as well as CCU's response to the crisis. The crisis has been a major focal point within the financial services industry and, although it may not have led to immediate changes at CCU, it has been the catalyst for ongoing changes. Although our intent was to learn about how the participants perceive and respond to these changes, responses tended to be purely factual and mainly included stories about technological change. As such, we chose to drop this question in the later interviews.

We chose to insert a question about the participants' backgrounds after the first round of interviews. When we were reflecting on the questions, we realized that we would be missing that context when we would later analyze the responses. When confronted by new situations, individuals respond based on past experiences and the logics to which they have been exposed. As such, understanding one's background is an important contextual factor when analyzing their response to change and uncertainty.

Another design evolution occurred in questions about conflict. The initial set of interviews included a question asking, "Have you experienced any conflicts arising from the increasing growth?" The participants found this question confusing, particularly because of the word "conflict". They would respond defensively, objecting that such conflict did not exist. Through this experience, we learned that questions that focused on specific situations are better suited to prompt discussions around conflict. For example, in an early interview a participant brought up the "difficult" situation surrounding less profitable branches. It became evident that this was an area where the logics presented opposing actions and each of the participants clearly struggled between the available options. As such, we would bring up this type of situation as a follow-up question to the "conflict" question and, eventually, we just removed the "conflict" question altogether and replaced it with one that specifically discussed that situation.

Another area in which conflict was discussed was competition between CUs. This situation could cause tension between the two logics: the financial logic to increase market share and the community logic to establish "co-operation between co-operatives". It was brought up early in one of the interviews by one of the participants in a story. When we asked other participants about it they tended to brush it off as unimportant. This consistently changed, however, when we directly asked about a specific situation in which another CU seemed to have engaged in a competitive action. As such, this direct approach tended to bring about more open reactions.

In addition to questions around conflict and changes, the last of the initial set of questions was to find out how the interviewees perceived their CU's identity. Organizational identity guides decision makers through dictating a logic of appropriateness (March 1991) and identity aspirations can drive actors within organizations to pursue actions in line with what they wish to become (Kodeih and Greenwood 2014). The financial logic originates within banks so understanding the interviewees' perceptions surrounding CCU's difference from banks was intended to help in understanding how they distinguish themselves from that mindset. Additionally, this question was to determine if their focus is on whom they are or who they wish to become.

Sub questions were used to direct the participants toward previously identified themes. Often these would vary based on the backgrounds or positions of the participants. For example, new board members were asked about their experience during the mergers and executives were asked questions relating to their specific areas of expertise.

4.5 Data Analysis

Notes were taken throughout the interviews to assist in generating follow-up questions and to make note of physical responses to questions. All interviews were recorded, transcribed, and analyzed by the student interviewer. Per ethics requirements, the transcripts were made available to the participants following the interviews to allow them to add, clarify, or modify their responses.

4.5.1 Grounded Theory

A grounded theory analysis process was used, as described by Hsieh and Shannon (2005). This seemed appropriate since little theory exists surrounding the balancing of institutional logics in co-operative organizations, particularly as it relates to governance. Data analysis began during the interviews. Along with recording the conversations, I made notes about participant reactions and put forward additional questions based on the emergence of common themes or new ideas related to the themes.

The interviews were transcribed verbatim and areas relating to predetermined themes were highlighted with distinct colours. Emerging themes were also given distinct colours and were analyzed based on their relation to the other themes. Special effort was made to ensure the context of the question was considered throughout the analysis. I would reread each transcript and go back to the original recording whenever the intent or context was in question.

Original themes that had surfaced during the prior research and literature reviews included conflict, change, culture, and the financial and community logics, but I also searched for repetitive ideas that may not have been highlighted in previous research. When I noticed certain ideas repeating, especially in connection to anticipated themes, I would note these additional themes and search for them during subsequent readings of all transcripts. One such theme that continued to surface in relation to each of the main themes was CCU's organizational governance.

4.5.2 Grouping Based on Commonalities

Initially I had anticipated different responses between participants based on their length of service with CCU or whether they were board or executive members; however, I could not find any distinguishable difference between these groups in each of the theme areas. This could be due to the small sample size. As such, all responses were grouped together.

4.5.3 Bias Considerations

With this type of approach there is a risk that the personal bias of the researcher impacting the analysis. In this situation, I had almost no experience with co-operatives or credit unions and had a history working in business. I was inclined toward a financial or business logic and was likely to have biases that support that way of thinking.

As a check against this bias and its related assumptions, regular discussions occurred with my supervisor. She had different biases due to her history with both investor-owned firms and co-operatives, and had different perspectives. Since she was present in the interviews and throughout the process, she was also able to ensure that the contextual factors were respected in the writing and interpretation of the results.

4.5.4 Identifying ILs in Interviews

In interpreting the comments and reactions of the participants, it was important that the characteristics of institutional logics were considered. How does the researcher determine whether or not a particular IL is influencing a specific behaviour or response, or whether it is even an IL that she is observing? When responding based on institutional logics, individuals act in a deterministic manner consistent with the rules and norms practiced by others in other organizations and situations that share that logic. When participants spoke about the pressures associated with financial outcomes and achieving efficiencies, or their actions relating to those pressures, these discussions were considered to be related to a financial logic. In the same way, discussions relating to a need or pressure to be true to co-operative principles, and/or concern over community needs, were considered to be related to the community logic.

There were times in which both pressures were discussed in these interviews. During such conversations, sometimes referred to as “difficult decisions,” there would be noticeable pauses that were inconsistent with the automatic responses that are attributed to an individual being influenced by an institutional logic. Participants demonstrated a struggle or an effort to work through these decisions rather than the taken-for-granted automatic response that is normally attributed to institutional logics. These reactions were interpreted as symptoms of inner conflict based on the conflicting points of view that were being discussed and the effort that the interviewee was exerting during those moments.

CHAPTER 5: RESULTS

5.1 "In a New Sandbox"

CCU board members and executives consistently discussed their environment as being in a state of change, and that the realities they face now are vastly different than what had faced CCU when it began.

> *So there is more compliance and more reporting to do there. There's certainly more to do with information technology. That's part of the competitive environment, so you have, um, like, the ever increasing pace of change. It was nothing ten years ago compared to today… (Executive E)*

> *It will all be electronic so that's a huge change I think – In how fast everything is happening and keeping up to society or whatever the consumer wants and maybe even demands. They want it cheaper, faster, yesterday is basically what the consumer is looking for. Our challenge is to keep up to that pace and be relevant and all that kind of stuff. (Executive G)*

In addition to their industry changes, CCU's growth has presented challenges:

> *The bigger we get, the more we are perceived as a bank or we act like a bank. I know that we, I know in years past we could turn on a dime. That's not true today. There's nothing easily done now today with 900 employees. You know there was a time when I could walk down on the banking floor and I knew all of them, right. That doesn't exist now so the mere fact of communicating to our staff becomes something huge. So introducing a new product becomes something huge. So the turnaround time to do anything, certainly is a challenge to us so I think communication, the size we are, keeping our staff all on the same page – those are all going to be challenges for us as we go forward. And we're in a new sandbox. We don't know how to play in this sandbox yet. Right? We've tripled our size in a period of about 5 years. (Executive F)*

5.2 Where logics balance

In most cases, the financial and community ILs have been blended in CCU in ways that are mutually supportive or complementary in addressing these changes. For example, through embracing a financial logic, the organization is able to achieve the profitability necessary for ensuring financial returns for members and for supporting the community in a real and meaningful way.

> *I think that we are now giving back more to our communities than we did when we were small credit unions and it's been more stable community giving, I guess, going back and one other thing I think that people don't realize is the branch is still open. It may not have been if we hadn't have done some of these mergers. To me that's the biggest community win – we're still in the community. (Board Member A)*

In the same way, CCU's community focus has enabled the organization's success as a business.

> *…the trick is to take our values and ensure that they align with our members and their values… over the years that's been the tried and true test for us. If we legitimately do things that are good not only for helping our members achieve personally but help their communities thrive and grow and be successful then we typically succeed in those markets. (Executive J)*

Sentiments such as these were echoed throughout the interviews when CCU's executives and board members were discussing CCU's past actions and broad concepts such as organizational values.

5.3 Difficult decisions

However, change has also introduced situations where sustained balance between the two logics has not yet been realized.

> *Things are changing though – hours are changing. I know, banks, some of our staff would be upset if we had to open up on Sundays but that's where we may have to go in the future, right? And the banks have gone there and I'm not sure the banks think as much about their culture or their employee culture as shareholder dividends, right? So those are some of the decisions we'll have to make longer term and they, again, are also*

values-driven. It isn't just financial or competitive driven. We also have to revisit our values and how do we balance the two. (Executive L)

The changing industry, technology and social attitudes have triggered situations in which the logics prescribe opposing strategies that most of the CCU decision makers have not yet found ways to rationalize, resulting in paradoxes and conflict.

…it will be a challenge to continue to be profitable enough to be strong, so that (the CFO) can sleep at night, um, and then to be relevant to the members and, ah, and still give back, and still be true to our grass roots and that's giving back to communities. (Executive M)

The term "conflict" was not often used nor even considered applicable in these situations. Instead the interviewees often mentioned "difficult decisions" or "hard choices". The interviewees all seem to experience these conflicts as an internal struggle within themselves. This occurred when discussing competition with other credit unions and the possibility of closing unprofitable branches.

5.3.1 Competition among Co-operatives

Co-operatives generally accept and abide by seven internationally agreed upon principles (ICA 2013; see Appendix B). The sixth principle, entitled "co-operation among co-operatives" encompasses the ideal that co-operatives best serve their members and the co-operative movement through working together with other co-operative organizations. Consistent with a community logic, this principle promotes harmonious relationship-building and the development of strong social ties. It could also run counter to a financial logic, particularly if other co-operative organizations are seen to be threatening the financial returns of another co-operative or stifling a CU's growth through limiting membership growth. That paradox seemed to be facing the decision makers at CCU.

In the past, each geographically-bounded community would have its own CU or a group of smaller communities would share one. Over time; however, many of those smaller CUs have merged into a lesser number of larger, growing CUs. As a result of its mergers and growth, CCU is now positioned in many communities, some of which are also occupied by other large growing CUs. As such, other CUs are concurrently offering the same services and vying for the same customers in the same locations. CCU interviewees had different perceptions surrounding their competitive situation and how it fits with the sixth co-operative principle. Most acknowledged that competition existed to some degree:

> *You'd like to think that co-operation amongst co-operatives would mean that there wouldn't be but there is and I think you just have to take the high road and deal with it like you would any other competition I suppose. You don't want to make enemies because they're a sister organization but in the larger centres there's a number of different credit unions. (Board Member C)*

Competition with fellow credit unions was also expressed as an inevitable consequence of growth. When asked if he anticipated competition to increase as the credit unions within the area grow larger, one board member responded:

> *Well, yes, if the population stays static, because you have to grow and the only way you can grow is through acquisition of more members and increased asset size.... as the population grows... there's new client potential right there, and so, you can grow with them. You can grow your business that way. (Board Member K)*

The majority, however, dismissed the idea of any competition between CCU and other credit unions, stating that the impression of competition was overstated. When asked about possible competitive actions between CCU and another credit union, a CCU executive stated:

> *To that end, others will make... from time to time journalists will take a run at... it's not in reality an issue for us. The CEOs of all the larger credit unions are not only acquaintances; I'd say we're friends. So there's no animosity. (Executive J)*

This was echoed by another executive:

> *We're all part of the same organization. I don't see much conflict. In fact our members don't like to see it. Sometimes our members are members of more than one credit union... I don't see any - our competition are the banks. (Executive B)*

One board member was particularly passionate about the need to work together:

Why not share the resources and put ourselves ahead of the banks rather than saying, "I'm not going to talk to them because they might get there before us" – and then you both lose. So I think it's just a no-brainer. You have to work together. (Board Member D)

Despite the competitive pressures that other credit unions could present to their organization, most CCU decision makers have consciously chosen to view other CUs as allies rather than competition. To this end, CCU consciously chooses to not directly target members of other credit unions. They have even avoided expanding into an area that is dominated by another credit union in order to respect the other credit union's boundaries.

Such deliberate tactics could either demonstrate that these decision makers have found a way to assimilate two logics or have deliberately chosen the community logic over the financial one. Further interview evidence supported the former reason. Choosing to co-operate with other credit unions that would otherwise be deemed competition has resulted in a national initiative among CUs that has produced innovations that have enabled the CUs to better compete head-on with the major Canadian banks.

One CCU Executive described other CUs as both competitors and allies:

But at the end of the day, we're separate institutions and believe we each have our own value proposition and that's why there's more than one credit union in the province or in Canada. So we don't focus on the credit unions as competitors. We actually work relatively close with our fellow credit unions, either both provincially and nationally. If we look at development initiatives, we'll work together. The HR group gets together on best practices. We share compensation information. We share, you know, what we're doing on benefits or policies. We do a lot of work on the IT side on the national perspective. So yes, we may compete with our fellow credit unions, but we also work collaboratively, recognizing that we are part of a larger movement in Canada. (Executive L)

One board member spoke of the importance of working with other credit unions and the importance of communication in navigating those relationships:

> *I mean other than saying communication is really important and people have to move beyond protecting their turf to become more visionary in terms of where we want to be in 10 or 20 years or... you know. Somewhere, a generation or two down the road. Because without being visionaries we're, I think, to some degree doomed. (Board Member H)*

Therefore, CCU has been able to satisfy the prescriptions of both financial and community logics with regard to the sixth co-operative principle, co-operating with other co-operatives. Their co-operation with other large credit unions toward mutually beneficial community and financial aims has enabled collective progress and greater competitiveness for Canadian credit unions than they could have achieved through simply competing over local locations and members.

5.3.2 Unprofitable branch closure

A difficult situation that repeatedly surfaced in the interviews was what to do with less profitable or unprofitable branches. As described by one board member:

> *The other big thing, I think that we're looking at, is: how do we manage, uh, the organization and services for people in communities that aren't growing? That, where we're not seeing a large amount of productive use of the money? OK, so we're not making anything in this community, and now that's strictly looking as an organization, right? How do we manage that? How do we provide services to those people and continue to keep them meaningfully engaged as Credit Union members? And so, that's going to be a big challenge for us as well. (Board Member K)*

As towns decrease in population, the number of members shrinks, and it becomes more difficult to recruit competent employees. Fewer members result in lower profits and, eventually, could lead to financial losses for that branch. Those subscribing to a financial logic would support the closing of non-profitable branches in order to ensure the best overall return for the CU and the majority of its membership. In contrast, community logic pressures urge the decision makers to keep the branch open to support the local community and the few members remaining, despite the financial sacrifice. As such, several of the interviewees struggled with questions surrounding this scenario.

When the interviewees assessed the situation the pressures of both logics were continuously voiced:

So, I mean, we do need our profits, but, if you were just looking at branching, [a charter bank] might have closed those branches down a long time ago, because the shareholder wants a different dividend. But our members are in those communities and they might forego a dividend. They would rather us have the presence. So that is where we might be a little bit different. (Executive E)

When discussing the potential of branch closures, both board members and CCU executives were struggling with complexity of the situation and CCU's purpose. For example, one CCU executive questioned the length at which CCU would go to ensure a branch would stay open.

As you try to be efficient, be relevant to the members, if you have branches that are six kilometres apart, that branch is actually the only thing left opened on Main Street. Are we like a crown corporation, like (local Crown Corporation), who has a public policy mandate? Being in every single little small community in the province to get those services out? Like Telecom, do we do the same with financial services? When everyone else has turned out the lights, including the (Crown Corp) and the grocery store. Are we always going to be last? (Executive E)

In many of the smaller communities, the CCU remains one of the last employers, making the prospect of closing a branch that is less financially viable particularly difficult to consider. This fact seemed to weigh heavy on some of the interviewees:

I was just thinking it's kind of like having the elevators in rural communities. It's bad if you're the first one out but it's even worse if you're the last one out. (Board Member C)

…numbers are really important but what do credit unions really mean to those communities, in particular, when we're the only financial institution in town. There's [a number of] communities in [the province] where we're the only guy to do banking with. (Board Member D)

Closure of a branch could impact more than the community and CCU's bottom line, as was alluded to by one board member when he was discussing the branch closures:

You can really create some negative image impacts for yourself if you're (pauses) so there's risk. (Board Member C)

Closure of a branch would demonstrate to members and staff that they are willing to resort to this extreme measure. This action could be threatening to their membership, as many of their members come from smaller communities. More importantly, such actions run counter to the norms of a community logic which centres on community sustainability and local relationship building. Branch closures threaten a CU's reputation among members, staff and other stakeholders who subscribe to that logic. The interviewees saw the situation as becoming of greater importance in the near future and stated that they may soon have to directly face this difficult choice.

> *That's gonna be a big project and we're gonna have to look at our whole branch network and kind of, not piecemeal it but have broad objectives to achieve. So we haven't fully gone down that path. We've started but the tough decisions are in the future but it's going to be holistic – whole look at the whole credit union rather than just picking here there and everywhere… We haven't gone too deep into it yet. It's gonna make some interesting board meetings – I know that for sure. Especially when it hits home or when it's your own local credit union in your community. Close to home it's always harder. (Board Member A)*

5.4 How are these balanced?

Why would CCU decision makers avoid competing with other credit unions and closing struggling branches, despite the norms within their industry? What is behind their decision to keep struggling branches open while banks and other successful CUs have chosen to close theirs? In other words, what keeps CCU from subscribing completely to a financial logic and becoming more bank-like? How do CCU board members balance the competing pressures to come to a different answer?

Individuals are influenced by the logics that they are exposed to through life experiences, education and other factors. Research has demonstrated that employees coming from specific backgrounds are likely to identify strongly with related logics, possibly resulting in conflict when facing alternative logics. Organizations can have some control over this through deliberate use of HR practices (Battilana and Dorado 2010). Through the interviews, it is apparent that CCU has been doing this for years.

5.4.1 "It's in our DNA"

Identity aspirations can influence the actions taken in organizations (Kodeih and Greenwood 2013). This was evident at CCU. When discussing past decisions and future outlooks, CCU's decision makers would often explain their actions as related to CCU's identity. These actions were always ones that favoured a community logic and tended to be idealistic and demonstrate pride. For example, when questioned about the CCU's corporate social responsibility (CSR) practices, one executive was quite passionate in his response, stating:

> *I mean we have no choice but to, to get excited about corporate social responsibility, because we're a co-operative, for crying out loud, right? (Executive F)*

Similarly, an executive team member without a long history with credit unions or co-operatives discussed community giving as a basic part of CCU's identity.

> *I mean we have had a long tradition of giving back to the community – it's our differentiator. It's arguably in our DNA. I don't think, or at least in my tenure, I haven't seen a time when that's been fundamentally questioned. (Executive I)*

This focus on the ideal co-operative identity is not coincidental. In fact, it is deeply established in the organization's past and reinforced through ongoing HR practices. For example, a commitment to serving the community through professional, locally-focused financial services is evident in CCU's mission, vision and corporate values. Directly in their values, CCU lists the seven internationally agreed upon co-operative principles (ICA 2013; see Appendix B), demonstrating commitment to their co-operative roots. Throughout the interviews, board members and the executive management team referred to these principles as the force behind many of their beliefs and actions.

CCU demonstrates these values through its community giving. Interviewees asserted that initiatives at CCU differ from the Corporate Social Responsibility (CSR) initiatives undertaken by banks. They held that CCU's close community connection has enabled them to spot where their support can best contribute to their community's needs. For example, a CCU executive discussed their response to flooding in one of their communities:

When (a community) had the flooding we were able to, through our local people, be there and support and provide pizza to the people that were on the line with sandbags for example. You don't see a big corporate bank doing that and it's because we know what's going on in our local communities. I think that's the difference. I think the other difference is that we put money back into communities – not in what I call the "pretty charities" or the nice places to show up with a cheque. (Executive F)

These values are reinforced in CCU's employees, who are not only encouraged, but are expected to take part in activities that promote community-mindedness. For example, CCU has an employee community donation program in which employees donate company money to a charity of their choice. When asked about the participation within the program one CCU executive stated:

… about 90% take advantage. And I remind them. I've gotten to the point now where I remind them quarterly "have you done it?" And I know who's done it so I can sort of target some of the people if they haven't. It just amazes me that they don't. (Executive F)

Even CCU's headquarters was created as a physical representation of organization's values. Reinforcing the values of environmental stewardship, strict environmental standards were followed in its creation. Its structure was also designed with the executive offices on the ground floor and common areas on the top floor to promote a feeling of equality. That sentiment is echoed in the rush parking with no reserved stalls. As described by a CCU executive:

That was a cultural change in that, there was a time when old-school thinking when parking was reserved for managers and the like and that's not the culture that we are about in the current version of CCU. (Executive J)

5.4.2 "Semantics"

Consistent with their focus on equality, CCU decision makers refer to the acquisition of smaller credit unions as "partnerships." It became apparent early on in the interviews that CCU's decision makers did not feel comfortable with the term "acquisition." When asked about the use of the term, an executive explained:

For semantics. If I was going to get the semantics right, it's an acquisition. Under new accounting rules, we are actually buying credit unions in the same way we would go buy an office tower. But that is not part of credit union culture. .. We would just never use words that ugly. We just never would. So when we say partnership, it really is. We are partnering with you; we are including you as a new district of (CCU). But you are not assimilated. You still have something that's very tangible and real and grass roots that you get to keep. So that is different than a merger where we just, I don't know, just steamroller over and just say that we will just pick up the pieces we want and then we will leave the rest. I think it really is a partnership when you say things like a loss of employment or requirement to relocate. Those are more partnership words than we're just going to acquire you and we will triage it after. It's definitely different. (Executive E)

5.4.3 Carefully chosen "Partnerships"

With all this effort to design and promote a culture that is consistent with the values of co-operatives, it is not surprising that CCU decision makers put special effort into ensuring that partnering CUs hold the same values. Interviewees consistently stated that partnerships are carefully chosen based on three main factors: location, like-mindedness and financial viability; however, when pressed further, financial viability was often considered less important than the first two factors. As one executive stated:

I would say, mostly, we're looking at, the qualities we would look for is a fit. A fit in corporate culture, a fit in perceptions around community and around governance... We could look at their capital position, we could look at how many branches they have, we could look at the things they haven't accomplished, or all the things they do really well. That matters a little less, because those things are, you can get past them. They are not forever road blocks and we can come to agreements on pricing and products and policies and procedures, but it's that governance tone and the way that we feel about community and the way we deal with our members, seems to be the driving force. Because we have partnership, partnered with some credit unions that are from a financial standpoint, not very strong at all. (Executive E)

Put differently, one board member offered:

> *I think, kinda coming back to our co-operative roots, we're not gonna leave some somebody out there hanging to dry, you know… I think the most important thing is like-mindedness. You need to have the same values, vision for what you see the organization being. If oil and water don't mix, even though you may be a credit union there's different philosophies on what do you focus your priorities on ... (Board Member C)*

When asked to define the values discussed within this context, the board member elaborated:

> *I think, for us, well our governance is an important one – it sets us apart. Co-operative roots are also important. There's some credit unions that are maybe a little less co-operative. They're more of a financial institution and what have you. That's fine for them – there's nothing wrong with that but it's not our outlook on things. (Board Member C)*

This idea of the "less co-operative" credit union was echoed throughout the interviews, especially when discussing partnerships with other credit unions. For example, another board member stated:

> *I guess you have to look at their branch philosophy and their governance philosophy and member service philosophy and make sure it fits with how we've been doing business. If they're a credit union that's more bank-like versus credit union-like I guess we'd struggle with it. (Board Member A)*

As a result, CUs that do not share CCU's community focus or are "maybe a little less co-operative" are avoided when CCU considers partnerships. This is intentional, as discussed by an executive:

> *But as long as people's values sets are the same, it's just a matter of figuring out what that balance should look like. We've not partnered with anyone who's in conflict with that so it hasn't been an issue for us. (Executive J)*

Based on their descriptions it was apparent that the "bank-like" CUs have a balance of logics that favours the financial side over the community. CCU is able to avoid the conflict from these conflicting logics through choosing CUs that share a similar balance of logics.

It's surprisingly non-confrontational. There's no difference of opinions per se, you might think we should invest a little more or a little less in terms of community versus what we can do... a better price for members versus we do so much in the communities and what's the trade-off. (Executive J)

As would be expected, the partnerships transition relatively smoothly, with all decision makers sharing similar mindsets. One of the newest board members reflected his and his colleagues' experience surrounding his CU's recent merger with CCU:

We've had nothing but positive comments sitting around the board table. It just feels like we were back at our original credit union. We feel right at home here and quite comfortable so those kinds of comments are great. It's amazing how similar we are – even the little credit unions to a big one are quite similar about how things are. (Board Member A)

5.4.4 Training - "Webinars and Stuff"

Training is another important way in which CCU reinforces organizational values. Classes are available to credit union employees through their national credit union association. As described by one CCU executive:

"Well we're lucky in the credit union system that the CUDA training is very robust so we'll immediately, any time anyone is elected, they are immediately enrolled in level A which is the beginning. But we would do one-offs with them. We have a co-op principles and traditions committee of the board and (the CFO) actually is the senior vice president that supports that. And we will offer webinars and stuff that delegates can log into and I just track who is taking what. So if that's a low on their competency than I'd just make sure that that's happening. Of if something else was happening where we had (a co-operative) conference, lots of delegates attended that weren't familiar with co-operatives. (Executive F)

As part of this training system, decision makers are expected to receive ongoing training in the competencies that they require, whether they are in financial literacy, risk, or other related areas. Although external training is available and accessed by CCU executives, they make use of this comprehensive CU-based educational program and track participants' progress.

This benefits CCU in two ways. First, external financial training would often be administered by bodies that are strongly immersed in the financial logic. Training through a CU body ensures that the training received is in line with co-operative principles. Second, rather than searching outside the organization for individuals such as accountants, financial analysts, or lawyers to act on the board of directors, CCU is able to cultivate and train them to meet the industry standards. This enables their CU to function democratically, yet be run by individuals that have the knowledge necessary to ensure authority over the organization.

> *I think we are, as board members, obligated to further our education in as many specific skill sets as we can to deflect that sort of notion – that we don't have the skills to be effective board members. I mean in that context the credit union system does have a very good set of opportunities for various kinds of skill development and various levels of development in terms of director skills. (Board Member H)*

5.4.5 Tenure

Tenure at CCU is quite high with 65%-70% of their positions staffed internally. Long tenure tends to cultivate greater organizational identification among employees (Rousseau and Parks 1993). CCU's human resources practices that are aimed at rooting their organizational culture in a community mindset are reinforced and strengthened over the tenure of these employees. This further solidifies the importance of the community in all organizational transactions.

5.5 "A Connection Back to the Local Communities"

All interviewees had internalized CCU's values and aspired to emulate the ideals of the co-operative identity. However, when asked about situations that involved "difficult decisions" their responses were not focused on achieving the co-operative ideal. Rather, CCU's governance kept surfacing as a mechanism that forced a balanced approach. This was discussed differently by board members than the executives.

5.5.1 The Executives

When discussing difficult decisions, the executives would mention the connection of the board member to their communities as well as their own personal incentives to find an acceptable option. For example, when asked about why she thought that CCU tends to focus more on community support than other CUs, an executive responded with, "W*hy do we give more? Because our board of directors are from here. (Executive B)*

Executives receive their direction from the board members and serve both an administrative and strategic purpose in CCU. Whereas the board of directors is engaged in macro-level decisions such as strategic and financial planning, regulatory compliance and stakeholder satisfaction, the executives' role is in strategically enacting the board's direction and managing day-to-day operations.

The executives are more likely than the board to be influenced by pressures associated with a financial logic, due to their duties and backgrounds. To have the expertise necessary in fulfilling their duties, they would have been exposed to financial and business logics through their education and past work history. Their duties and responsibilities also expose them to pressures surrounding finding efficiencies and managing growth and risk. Without established rules and procedures, these pressures could encourage decision makers to consider "legitimated" strategies and tactics that have been engineered and perfected by banks. Finally, in contrast to the community embeddedness of the board members, executives and their administration are now centrally located in a head office. One executive voiced concerns over this newer arrangement:

> *We've come from a culture where we were distributed. We were sitting in a branch so that a member could honestly walk in and walk into my office if they wanted to. That's not going to happen here… So the issue for us is how do we, how does senior management get out and actually get into branches. .. Where it really happens is on the branch floor or the teleservice so how do we get out and interface with those folks so we honestly know what's going on. I think that's going to be the challenge for us. (Executive F)*

As a way to mitigate any pressures to become more bank-like, the executives are held accountable to standards set out in their balanced scorecard. This document is developed to identify and rank CCU's priorities; executive incentives are created in line with this document.

> *…our board says, "here's how important this one is" and "here's how important this one is" and we get judged on that accordingly… We're measured around members, around community, around financial, around employees. (Executive I)*

> *When you have policy driving how much you put back, we do have expectations right in individual performance plans of the employees to be involved in the community so your performance is actually measured on whether you do or don't kind of thing. (Executive G)*

As appointed representatives, the executive team has specialized experience and knowledge beyond that of the board. This enables an opportunity to use their greater professional knowledge toward extracting personal gain, thereby leading to the possibility of moral hazard. For example, executives could put greater effort into outcomes that are more heavily compensated or could take actions that are simpler to administer but do not result in the best outcome for the members.

CCU has mitigated the principal-agent dilemma in four ways. First, members are also owners, so the actions of CU decision makers are experienced quickly by those with the power to ensure that problems are addressed. Second, board members receive intense training in relevant areas. CCU has a competency-based program in which board members are assessed in their abilities and receive training in areas where they need to improve. This knowledge strengthens their ability to understand and question the actions of their executive. Third, membership representatives and board members' community embeddedness ensure that the member-owners are able to communicate their interests to the board members quickly through both formal and informal channels, thereby lessening the information asymmetry. Fourth, as with other CUs, CCU makes use of implicit performance contracts for management (Fulton and Pohler, 2015).

Board members expressed a similar accountability; however, theirs was to the communities and the elected delegates who in turn elect them. For example, when a board member discussed the difficulty in balancing the needs of the city with those in smaller communities, she acknowledged the importance of listening to CCU's membership delegates.

> *What's important to someone from (town) isn't necessarily what's important to someone from (city), if you know what I'm saying. And so it's so easy to forget about these people over here because they're a small branch. But they're just as important as the people over here. So because they have a representative at the table in our region, bringing us their concerns, their accolades, whatever they have to say to our little delegate meeting*

in our region so that I as a director can take it forward to the board table, means a lot to them. Otherwise how would they get that message through? …They come to the table, they bring their thoughts, their messages, and we listen. We don't just do this to make us feel good. We do it because we know it's what needs to be done because once we forget them; we're going to lose at this end. We don't want to be a bank and that's a risk when you're growing quickly. You have to be careful. (Board Member D)

Despite the size of the CU, CCU board members are not centrally located. Each member lives and works in their home communities which are scattered throughout their province. Their lives are intertwined with those of their towns, cities and villages through local industry and community gatherings. As such, not only do these board members experience the impacts of their CU's actions, their local membership is in close contact, enabling immediate feedback. The result was described by one executive:

It's individuals that are connected to community needs and willing to step forward to say that "our community needs" whatever the initiative is and recognizing it so I think it's connected to our coop principles. I think maybe we're more connected there. (Executive G)

As a result, a trusting relationship develops between the board member, CCU and their communities. As a board member stated:

In a smaller community like where I'm from, well the credit union has been there for fifty-some-odd years. The community has grown up along with the credit union and, you know, it's had, what's the word I'm looking for - ties to the community and whatnot that I think most people there realize the co-operative nature of the credit union. (Board Member C)

This personal connection to the community ensures that board members feel the impact of major decisions. Although not overtly discussed during the interviews, there is a possibility that the community embeddedness of board members may also produce some risk associated with unfavourable decisions. They may be compelled to consider the impact of their choices not only on their organization's direction, but also on their communities, friends and personal reputations.

One board member described this difficulty when asked about how they would choose if and when to close a branch:

> *It's gonna make some interesting board meetings – I know that for sure. Especially when it hits home or when it's your own local credit union in your community. Close to home it's always harder. (Board Member A)*

Since CCU is quite large and encompasses several communities beyond those from which board members reside, CCU's governance structure makes use of a large number of elected member representatives who reside in and act on behalf of each of CCU's regions. These delegates make up a substantial network that communicates information both from members to the board and vice versa. Delegates are given significant responsibilities in steering the organization, and those who take on this role are embedded in their local communities, engaged in their local branch, and care about CCU's impact on the welfare of their communities and the people within it.

CCU Board members described the delegates as a connection between the board and the communities they serve:

> *We wanted to make the role meaningful so there's a reporting back from the directors on a quarterly basis, we try to have district council meetings. But there's also input to the director, you know, if there's concerns at the district level to come back to the board. There's an important part of the strategic planning cycle that involves the delegates where they're brought down here at the beginning of November for a day and a half meeting and their input is sought on different topics. They directly decide on district council community development funding so they've got an allocation based on membership and assets or maybe it's assets – yeah, assets I think. And each council can decide on what organizations or what have you, that they want to support. But that's a connection back to the local communities. (Board Member C)*

Through the delegates, the board members communicate with their communities and vice versa. Delegates enhance the feedback to CCU regarding their community situation and the impact of CCU's decisions, thereby lessening the information asymmetry between the board and CCU's members. The interviewees all stressed the importance of the delegates to CCU. As CCU grows, the board needs a mechanism to communicate the membership. This was discussed by two of the executives:

> *In order to have a good relationship with your members you have to be talking to them on a regular basis. And here at (CCU) we now have 100 delegates around the province that are bringing us the story from their home community. Bringing us their concerns and taking back information about what (CCU) is doing. If we didn't have that we can't rely on our frontline staff to do that communication. It has to be done through the delegate structure which is co-operatives, credit unions. (Executive G)*

> *One of the concerns is that, as you grow and if you pursue growth for all the good reasons that I've mentioned, is there a risk that you become too big and you somehow lose your connection to the grass roots that got you started in the first place? It's a real risk – I won't deny that. So our way of mitigating that risk is our governance structure. So we do have district councils that we try to engage into the whole governance process. Those delegates in turn elect directors on our board. So we spend a substantial amount of effort on the whole governance engagement piece and that's our way of making sure that we are still connected to the grass roots. (Executive I)*

CCU's members elect the delegates to represent their communities. Delegates elect the board of directors every three years. Each member is elected regionally to ensure balanced representation from across the province and democratic provisions exist to enable the removal of unfit directors.

A decision maker that is democratically held accountable to an aggregate of diverse wants and needs must pursue actions that satisfy the electorate or risk losing power. The delegates tend to be representatives that are more engaged than an average member so they are aware of the decisions of the board and how those decisions impact the members from their community.

As such, CCU board members would be conscious of the impact that their decisions would have on their reputations and chances for being reelected. One executive discussed the challenge this creates when making decisions:

> *We have to generate enough profit to be capitally strong, cause, guess what? We have to be there and, and it's in shrinking margins, so there is less money to share back, to give*

to communities. Right? Or it's tougher. It's, it is getting to be tougher and tougher because of shrinking margins, 'cause the first natural place that you can look to cut or shave or eliminate or reduce is in giving back to communities. Uh, it's going to be more difficult for us at CCU to do that, though, because of our governance structure. Cause we're going to get a ton of push back from those (many) delegates going, Uh-uh, we have to find a, we have to find a balance. (Executive J)

The close connection to the community that is made possible through the governance model results in greater accountability to the membership. For example, when discussing the possibility of closing unprofitable branches, one board member discussed the difficulty that delegates would have in supporting the decision.

Well everybody has personal opinions but at the same time most of those delegates are from small communities so they can certainly relate to what you're talking about when you're talking about closing a branch and there aren't many delegates that are going to say, "yeah, you really need to be doing that." (laughs) 'cause it could be their turn. You know. (Board Member D)

As a result, CCU board members and their executive team are placed in a situation where they are not able to completely mimic the actions that banks and the more bank-like CUs are taking. Instead, they are forced to explore other options.

5.6 Innovation and Creativity

As executives are held to the wishes of the board and the board are held to the wishes of CCU's delegates, they are forced to understand and work through the complexity that opposing mindsets present. This was particularly evident when the interviewees were asked about the possibility of closing branches.

I think that there's ways that we can be 4 percent more efficient and not close a branch. Where you just go through all of your costs and really be honest about what's discretionary and what isn't, and it just takes a, probably more discipline than we have ever used. But there are ways. (Executive E)

The interviewees stressed the different options that would be preferable to closing a branch and they showed pride in the creative ways that they have found the efficiencies elsewhere. In fact, not one discussed the possibility of closing a branch without listing off other options that they would consider before finally settling on that option.

> *Maybe some of these small branches maybe the best alternative is to close them – but you hate to see that. It's sort of the last thing you want to do. So I think we'd try to find alternatives. There may be a reduction in hours – may be three days a week. I think we try to go as far as we can to serve the members and part of that may be through internet and mobile banking and whatnot. But a lot of people like to deal face-to-face and what have you too. (Board Member C)*

> *When we're trying to be efficient, and at the same time, trying to be in our community, there's probably ways we can do that very cleverly. And it might be that there's capacity in that location, and those two people aren't busy, but maybe we can route some of our call centre calls to them. And they could be busy all day long with a very small footprint, and not a lot of cost, and that branch was paid for in 1972. It's not costing a lot to keep the lights on there, but, maybe we could keep them employed in rural (province) in a different way. So, it's not always about closing branches. It's just about being creative. (Executive E)*

This is consistent with CCU's history.

> *We have left the lights on, and if we were going to go through tough times, and we have… to be very careful around capital, particularly when there were so many failures, and we were very careful about bottom line. We were careful about things like conferencing and training and travel, and is there a different way we can do business so that people keep their credentials and, can we do things a little differently, so that that's not the first place we look. And we haven't looked there. ... So we don't want to be an organization that lays off people. So how can we keep all these people and do something a little different without a cost and there's usually ways that we can do it. Whether it's have long talks with our suppliers or where else we try to flex, you know, some organizational muscle to get our costs down. So, we can always go to our suppliers, we can always go to the*

things we are doing internally, we can always work just a little bit differently than we do, and that should be the last resort. And I would say that so far in our history, that hasn't been a resort. (Executive E)

Given the difficult decisions and the need for these large and growing organizations to be able to find new, innovative solutions, how is a group of representatives from all over the province able to have the knowledge and ability to steer CCU? Moreover, how do they have enough knowledge to question the advice and actions of an executive team that have years of specialized training and experience in their area?

5.7 Accountability to Membership and Board Composition / Training

Through the interviews, it became evident that accountability to members through their democratic structure was important to all CCU decision makers: executives and board. We asked some of them about the impact of the electorate system on the board composition and their competencies and questioned whether board appointments might be beneficial. One executive's answer summed up the trade-off:

The downside of that though is that you can't pick and choose, right? ... well I can say to the nominating committee, "I'd like to see a business person on your council." or a farmer or an accountant, or a lawyer, but you may not get that, right? So my thought has always been you can train people. They have to have the desire to be at the table and they're not just warming a chair. If that's given then you can train them to be what you want them to be, so... I think that's a real advantage for us. (Executive F)

In fact, as one board member put, CCU has found a way to ensure the organization has enough engaged individuals within the membership to fill the board positions.

There's always a problem getting good quality directors at any board table. Well we have this pool of well educated, well trained people from all over the province and if they have any interest whatsoever in becoming a director. What a great opportunity for (CCU). These people are taking training on a regular basis alongside the directors. Like I'm a (member representative) first and foremost then I'm a director after that, sort of thing. (Board Member D)

CCU's delegate training ensures that those holding the board accountable are knowledgeable enough to understand the CU's situation and the choices available to its decision-makers. The training also prepares them for eventually taking a spot on the board and, with additional and ongoing board training, provides the knowledge necessary to be able to lead the organization.

5.8 Summary

Facing increasing challenges associated with regulatory and policy changes, and in an industry permeated by the financial logic, CCU has retained a balance that supports both community and financial logics. This is accomplished through anchoring their culture in their co-operative identity and maintaining human resources practices that reinforce the community logic. Although this would influence their decision-makers when confronted with "difficult decisions", CCU's governance structure ultimately forces CCU decision makers to keep searching for an appropriate balance rather than mimicking the solutions that banks and more bank-like CUs have found to be successful.

CHAPTER 6: DISCUSSION AND POLICY IMPLICATIONS

6.1 Discussion

This study provides new insights in the areas of new institutional theory and CU governance. Through these insights, this study can assist regulators, governments and democratic organizations in reinforcing the governance of their organizations in ways that will assist them in navigating new pressures and challenges.

6.1.1 Theoretical Contribution

The study's primary and novel theoretical contribution is to the understanding of the role of governance in the balancing of opposing logics. CCU's owner-member structure as well as the use of member representatives ensures that the community has the power to hold board members accountable for their decisions. Since a CU's members are also its users, they directly experience the impacts of the organizational decisions. This provides an incentive for them to communicate their needs to decision makers. The member representatives have an important role in this and receive specialized training to assist them. They are elected by the membership and, therefore, must serve the members' needs or risk not getting re-elected. This responsibility encourages their engagement and the specialized training provides them the knowledge to question board decisions and to act as a conduit through which the board and members communicate.

The member representative role facilitates direct and quick feedback on decisions and decreases the possibility of information asymmetry. This reinforces accountability in two ways. First, it ensures the board can be held accountable for their decisions. The member representatives are able to communicate to members when the board is acting contrary to the community's needs and wishes. Second, it keeps the board informed about the actions of the CU. Through this feedback channel, board members are able to gauge the performance of their executive team to lessen the ability for executive members to act in a way that is inconsistent with the board's direction.

As a result of their governance model, decision makers at CCU are exposed to the diverse needs and concerns brought forward by their members. Moreover, their membership representatives have the training and authority to hold them accountable to the membership for their decisions.

Finally, because they are embedded in their community, CCU board members regularly see how their decisions impact their local communities, families, and friends. This prompts an obligation to engage in greater search efforts to find innovative solutions that will serve their members' interests. As such, a democratic governance structure helps the organization maintain a balance of logics that is reflective of its community.

Since their community has interests and needs rooted in more than one logic, CCU decision makers search to find solutions that appease both logics. In situations where logics naturally conflict, the increased complexity and lack of previously established responses trigger innovation as decision makers and their executives dig deeper. This is consistent with other examples of innovation in response to dissonance from institutional pluralism (Jay 2013, Stark 2009).

Through this study, we were able to observe decision makers struggle through the cognitive dissonance associated with a "difficult decision". CCU decision makers were noticeably impacted when discussing how they would decide the fate of a struggling branch in a shrinking community. Because there has been no established procedure in responding to this situation, we were able to watch as they worked through the raw pressures of the financial and community logics. Interviewees tended to respond to this in three ways. Most would go through a list of several different options through which they could find a balance. Some would refer to their organization's history of not yet closing a branch. Some would refer to the decision as a difficult decision that they would need to address in the future. These responses were not mutually exclusive. For example some interviewees would use all three responses.

This study also supports current theoretical ideas about the management of opposing logics in hybrid organizations. Consistent with Kodeih and Greenwood (2013), we found that the co-operative principles inspire CCU decision makers to emulate a co-operative identity. They pride themselves on being able to make decisions in line with what they perceive to be an 'ideal' co-operative identity. Similar to the findings of Battilana and Dorado (2010), we have also demonstrated that the organization's culture, as orchestrated through CCU's human resources practices, has supported a balance of the financial and community logics. Rather than through the creation of a common identity that combines both logics, however, this balance is facilitated through reinforcement of the more permeable and threatened community logic. Since the community IL is more susceptible to the influence of the financial logic, this reinforcement is likely necessary in protecting CCU from being dominated by the financial logic.

Language choice, training and the focus on the co-operative identity ensure that CU staff understand and emulate the values passed down from the community and the board of directors. These practices support the day-to-day activities and help shape employee values so that they do not conflict with those of the CU.

This study also offers a new way to approach an old co-operative dilemma. Through applying theory on ILs to gain a better understanding into how CU decision-makers balance the competing needs of the association with the needs of the membership, we are able to apply more recent theoretical developments to the well-established idea that co-operatives struggle with competing objectives (Briscoe, 1971). The study also contributes to understanding how to address some of the challenges still being faced by today's co-operatives. Specifically, this study outlines the important role that organizational governance may play in addressing these well-documented tensions

6.1.2 Empirical Contribution and Policy Implications

CUs have historically played a vital role in the Canadian financial services industry. Their values and structures result in a strong alternative to banks, as they are distinctly different in their design and purpose (McKillop and Wilson 2015). Moreover, they are more likely to support economic development in local communities (Fairbairn et al. 1997), and they have been found to be more resilient in times of global financial turmoil (Birchall and Hammond Ketilson 2009). I initially proposed that the traditional benefits offered by these unique organizational forms may be threatened through their recent growth in response to regulatory and policy changes, and the changing dynamics of their communities. These pressures have the potential to prompt CUs to think and act more like banks.

However, the major empirical contribution of this study is that it highlights the importance of the role played by a CU's governance model. It is critical that CUs ensure their governance structures and models are established and reinforced in ways that will ensure their democratic nature and accountability to their members and local communities is maintained. The accountability of CU board members to their membership ensures that they are able to maintain a balance of logics that is in line with the needs of the members and their communities.

The CU examined in this study has reinforced its democratic process through community embeddedness, member representatives, and training/education. Board and member representatives live among the members they represent. This ensures greater accountability to their communities and better feedback on the impact of board and executive decisions. The role of the member representatives further enhances the feedback and promotes increased engagement. Finally, education of CCU's board and member representatives ensures they are able to understand and question the actions of other parties. This reinforces their knowledge and authority, and mitigates the principal-agent problem.

Based on the findings of this study, I recommend that policy-makers exercise caution when considering changes that will impact the democratic nature of co-operative organizations. Any actions that would impede the ability of members to hold their board accountable for the organization's actions could harm not only the organization's competitive advantage, but also its unique advantages and ability to serve as an alternative financial services provider. CUs have been able to thrive in an industry that is permeated by the financial logic and dominated by organizations that have mastered strategies rooted in that logic. CCU's governance triggers a struggle to achieve a balance both within individuals, but also between individuals, that supports both logics. The innovation that they achieve as an outcome of that process has helped them excel in their co-operative form, which allows them to provide benefits for their members and members' communities.

Some CUs and CU regulators are considering undertaking governance and regulatory changes that could fundamentally alter the democratic process of co-operative board elections. Placing restrictive criteria on board nomination bylaws can greatly limit the ability for an average member to be elected to the board of directors (Silcoff and Strauss 2015). Depending on the policy design, the appointment of board members outside the electoral process could lessen the accountability of board members to the membership. Although they might have the education needed to mitigate the principal-agent problem, appointed board members could be less accountable to the membership, reducing the perception of the board's legitimacy. When encountering "difficult decisions" appointed board members may not feel the same pressures to find an appropriate balance. Ultimately, this could weaken the organization's ability to innovate and erode its uniqueness

While changes to capitalization requirements and tax policy for CUs were mentioned as creating pressures for growth by the CU decision-makers interviewed in this study, a more detailed examination of the impact of these policies on the governance and operations of CUs was beyond the scope of the current study. However, by exploring the way that CU decision makers perceive and respond to the increasing pressures of recent and ongoing changes in industry, this study also provides some insights about how other regulatory and industry changes may impact these unique organizations. In the interviews, CCU's decision makers discussed the additional pressures of the changing industry and regulations. Although this increased complexity and presented new challenges for CCU, there was no indication that these challenges were prompting CCU to become more bank-like.

In situations where they may be tempted to adopt strategies more consistent with a financial logic, CCU's decision makers instead chose to take a unique approach. For example, the increased industry competition could have prompted CCU to solicit new members from other CUs. Instead, CCU decision makers have responded, along with other Canadian CUs, through the creation of joint committees with other CUs. Through these partnerships, CUs are able to benefit from collective resources and innovation to help them compete better with banks. This unique response is consistent with the co-operative principles and made them more competitive. Notwithstanding these benefits, there could be potential downsides to members if these co-operative activities between CUs serve to reduce healthy competition in the industry. However, this is likely not a major issue in an industry that is as concentrated as the Canadian financial services industry. Moreover, in reality the presence of CUs likely enhances competition for financial services and makes the industry fairer for consumers (Schneiberg, 2013).

This study suggests that a CU's governance structure may lead them to respond to industry and policy challenges with innovative solutions; however, there is still a concern about what the impact of these challenges mean for the long-term viability of CUs. Interviewees expressed concern about their ability to continue to respond to these new challenges in an increasingly competitive environment. As one board member stated:

> *If credit unions end up getting taxed (provincially) as are banks, we are going to have less dollars and we are very active in terms of supporting various organizations or structures within our communities. And with less dollars we aren't going to be able to do that work that we see as being very important and being a very important part of what we are. (Board Member H)*

There are also legitimate questions that could be raised about the efficiency of more complex governance structures relatively to the benefits that have been outlined here. Moreover, challenges associated with the scalability of these structures as the co-operative grows must be addressed for CUs to retain these advantages.

In summary, policy-makers should be cautious of regulatory changes that seek to "level the playing field" between co-operatives and investor-owned firms. Regulators must recognize that the unique advantages credit unions provide to society come directly from their unique ownership and governance structures. This study provides insights that can assist governments and regulators in ensuring that these important organizations are able to remain a distinct alternative for the Canadian public to access financial services.

6.2 Limitations and Recommendations for Future Research

This study had a few limitations. The first was its small sample size; we only interviewed thirteen decision-makers in one CU. The group included the entire executive team and five board members, so was likely not completely representative of the Board. Although there was an effort to include individuals with various tenures and backgrounds, the ethnicity and ages of the interviewees was not considered, resulting in a sample that may not fully represent the diversity of CCU's board. However, I am confident that I reached theoretical saturation, because toward the end of all the interviews, we were not hearing any new information from any of the participants.

The importance of governance had not been anticipated at the onset of the study and only came to light through the interviews. Once I understood the importance of governance in this study, I attempted to find applicable research to help me establish a context for my research. A lack of research in this area at the time made this difficult. Over the span of this study the field progressed and new information emerged to assist me; however, the limitations of a Masters project prevented me from going back to initial interviewees with questions based on what I learned from this research. Grounded theory requires a strong knowledge base in the areas being explored. Because I had not researched governance prior to the interview stage, I missed the opportunity to provide follow-up questions that might have better informed my results.

If I was to undertake similar research in the future, I could address this limitation through investigating possible outcomes more broadly so as to be better prepared or to hold interviews in two stages. In the first stage I would get a base understanding of the outcome. This could be followed by research into relevant areas and a second round of interviews based on that research.

Finally, this is case study of only one organization, and so its conclusions are limited in generalizability. While the study can provide preliminary insights into all co-operative organizations, additional research would be needed to support and confirm these insights. Moreover, CCU decision makers see their governance structure as more democratic than many other Canadian CUs and see their policies as more community-focused. It would be interesting to do a comparative analysis of CCU and another large CU in order to understand the impact of the varying degrees of democratic representation on their decision making processes. The importance of governance could also be tested through an examination of an equally democratic hybrid that extends less effort in reinforcing its culture, a community-focused investor-owned bank, or a bank that is neither a CU, nor a corporation, yet is highly community-focused, such as First Nations Bank of Canada.

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APPENDIX A: Interview Questions

- What are the changes that have been occurring in the financial services industry over time?
- How has your credit union adapted to these changes?
- What has stayed the same throughout?
- What qualities do you look for or attempt to avoid in other credit unions when considering a merger?
- What does your credit union plan to gain through its most recent mergers?
- How important is your credit union's growth to you?
- What concerns do you have/benefits do you see arising from your credit union's growth?
- Have you experienced any conflicts arising from the increase in this growth?
- How do you visualize the problems facing your credit union as it tries to be both more efficient and more responsive to community and sustainable development objectives?
- How do you see your credit union as different and/or similar to the major investor-owned banks?
- Do you see any differences between CCU and other credit unions?
- How do you define your credit union's community?
- As CCU grows, do you see its relationship changing with other large credit unions?

Added Interview Questions

- As some towns are shrinking the credit union often remains the only physical financial institution left. Over time these smaller branches can become less financially viable as their membership dwindles, ultimately requiring members from other branches to subsidize their losses. What is the best way to respond to those pressures?
- How would you explain your response to the members of the smaller branch/larger fiscally strong branch?
- Could you tell us a little bit about your background – both education and work history?

APPENDIX B: 7 Cooperative Principles

Cooperatives around the world generally operate according to the same core principles and values, adopted by the International Co-operative Alliance in 1995. Cooperatives trace the roots of these principles to the first modern cooperative founded in Rochdale, England in 1844.

1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Cooperatives are democratic organizations controlled by their members—those who buy the goods or use the services of the cooperative—who actively participate in setting policies and making decisions.

3. Members' Economic Participation

Members contribute equally to, and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.

4. Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If the co-op enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the cooperative's autonomy.

5. Education, Training and Information

Cooperatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.

6. Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community

While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.

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