

498 | 18

Views | CrossRef citations to date | 0 | Altmetric

Original Articles

# What drives the performance of cooperative financial institutions? Evidence for US credit unions

John Goddard, Donal McKillop & John O. S. Wilson 

Pages 879-893 | Published online: 06 Jun 2008

 Cite this article  <https://doi.org/10.1080/09603100701262818>

Sample our  
Economics, Finance,  
Business & Industry Journals  
>> [Sign in here](#) to start your access  
to the latest two volumes for 14 days

 Full Article Figures & data References Citations Metrics Reprints & Permissions

Read this article

 Share

## Abstract

Nested analysis of variance is used to identify the sources of variation in performance, measured by growth of membership and growth of assets, for a large sample of US credit unions. The analysis reveals that sector effects (geographic, common bond and charter type) account for only relatively small proportions of the variation in performance. This raises doubts as to whether credit unions are likely to benefit much from competitive repositioning at sector level (by changing their charter type or common bond designation). It may be that the perceived benefit derived from such manoeuvrings is greater than the actual benefit, or it may be that the large number of credit unions seeking a more permissive operating environment has ended up negating any potential gain in performance across the sector as a whole. In contrast to the limited role identified for sector effects, individual credit union effects explain a large proportion of the variation in performance. This suggests that decisions made by

individual credit unions with respect to staffing, governance and product portfolio, as well as philosophy and ethos, play an important role in explaining the heterogeneity in credit union performance.

---

---

## Acknowledgements

The third named author acknowledges the kind support of the Leverhulme Trust.

---

## Notes

<sup>1</sup>See Credit Union National Association ([2004](#)) for more information on the distinctive features of US credit unions.

<sup>2</sup>Larger credit unions provide a similar array of retail financial services to personal customer as banks and savings and loan associations. In addition, credit unions may also offer interest bearing business checking accounts and commercial loans (to a multiple of 1.75 of a credit union's capital or no more than 12.25%), agricultural loans and venture capital loans. Credit unions may also deal in investment products such as bankers' acceptances, cash forward agreements and reverse purchase transactions. This has brought them into direct competition with mainstream financial services providers. Recent evidence suggests that credit unions play an important role in promoting competition among retail banks in highly concentrated banking markets (Tokle and Tokle, [2000](#); Feinberg, [2001](#); Feinberg and Rahman, 2001; Hannan, [2003](#); Schmid, [2005](#)).

<sup>3</sup>In the period 1998 to 2003, 500 federal credit unions have altered their common bond to that of community.

<sup>4</sup>Federal credit unions are generally exempt from all federal, state and local income or franchise taxes. State chartered credit unions are exempt from federal and most state income taxes.

<sup>5</sup>See for example, Fried et al. ([1993](#), 1994), who utilize data envelopment analysis to compute efficiency measures for US credit unions, and explain differences in relative

efficiency in terms of industry effects.

<sup>6</sup>The authors are indebted to Callahan and Associates for supplying most of the data on which this article is based.

<sup>7</sup>These geographical areas have become much wider during recent times. An example is America First, which in 2003 was granted a charter by the NCUA permitting it to serve members in six Utah counties.

<sup>8</sup>Frame et al. ([2003](#)) in a study which focuses upon the distribution of the credit union income tax subsidy emphasize the cost-efficiency effect of the common bond. The authors note that credit unions with a residential common bond have higher costs than mutuals but that single common bond occupational and associational credit unions are more cost efficient.

<sup>9</sup>The National Credit Union Share Insurance Fund insures individuals' shares of all federal credit unions and a majority of state credit unions. The remaining state credit unions secure share insurance from various state and private funds.

<sup>10</sup>In 2002 and 2003, a further 13 federal credit unions converted to a state charter, while an additional 51 federal credit unions merged into a state chartered credit union

<sup>11</sup>In 2002 and 2003, a further 35 state credit unions converted to a federal charter, while an additional 54 state credit unions merged into a federally chartered credit union.

<sup>12</sup>Roy Bergengren was a credit union pioneer at the forefront of securing state and federal laws in the United States. He paved the way for the development of credit unions. By 1929, his leadership resulted in the passage of 32 state credit union-related laws. He also led the fight to pass the federal credit union act and was the first executive officer of CUNA & Affiliates and CUNA Mutual. He helped substantially build the foundation of the US national credit union organization and in doing so established the foundation for the worldwide credit union movement. He helped with the drafting of the Federal Credit Union Act 1934, and the Massachusetts Credit Union Act which formed the basis of what became the credit union acts in the US, Canada, UK and Ireland.

<sup>13</sup>A number of credit unions have recently converted to mutual savings banks. Merrick ([2001](#)) calculates that 16 credit unions have converted since 1995. He argues that

although as yet it involves very few credit unions, interest in conversion is symptomatic of the fact that legislative and regulatory events have eroded the value of the credit union charter.

---

## Related Research Data

### [Does corporate strategy matter?](#)

Source: Strategic Management Journal

### [Enhancing The Performance of Credit Unions: The Evolution of a Methodology](#)

Source: Recherches économiques de Louvain

### [A causality test of the relationship between bank and credit union lending rates in local markets](#)

Source: Economics Letters

### [Efficiency of Financial Institutions: International Survey and Directions for Future Research](#)

Source: Finance and Economics Discussion Series

### [The Performance of US Corporations: 1981-1994](#)

Source: Journal of Industrial Economics

### [What Do We Know About Variance in Accounting Profitability?](#)

Source: Management Science

### [Industry, corporate, and segment effects and business performance: a non-parametric approach](#)

Source: Strategic Management Journal

### [Do credit unions use their tax advantage to benefit members? Evidence from a cost function](#)

Source: Review of Financial Economics

### [Bank Market Structure and Competition: A Survey](#)

Source: Journal of money credit and banking

### [Evaluating the performance of US credit unions](#)

Source: Journal of Banking & Finance

### [Strategic Groups in Banking](#)

Source: Review of Economics and Statistics

### [Determinants of European bank profitability: A note](#)

Source: Journal of Banking & Finance

### [Some Tests of Specification for Panel Data: Monte Carlo Evidence and an Application to Employment Equations](#)

Source: The Review of Economic Studies

Corporate and industry effects on business unit competitive position

Source: Strategic Management Journal

Bank Competition and Access to Finance: International Evidence

Source: Journal of money credit and banking

The Persistence of Shocks to Profitability

Source: Review of Economics and Statistics

The growth of US credit unions

Source: Journal of Banking & Finance

How much does industry matter?

Source: Strategic Management Journal

Efficiency in European banking

Source: European Economic Review

The Competitive Role of Credit Unions in Small Local Financial Services Markets

Source: Review of Economics and Statistics

Multiple common bond credit unions and the allocation of benefits

Source: Journal of Economics and Finance

Do Firms Differ Much?

Source: Journal of Industrial Economics

Membership growth, multiple membership groups and agency control at credit unions

Source: Review of Financial Economics

RISK MANAGEMENT TECHNIQUES EMPLOYED WITHIN THE U.S. CREDIT UNION  
INDUSTRY

Source: Journal of Business Finance & Accounting

Inside the Black Box: What Explains Differences in the Efficiencies of Financial  
Institutions?

Source: SSRN Electronic Journal

The Profit-Structure Relationship in Banking--Tests of Market-Power and Efficient-  
Structure Hypotheses

Source: Journal of money credit and banking

Evidence on the (Non) Relationship between Concentration and Profitability in Banking

Source: Journal of money credit and banking

A Time to Grow and a Time to Die: Growth and Mortality of Credit Unions in New York  
City, 1914-1990

Source: American Journal of Sociology

The relation between commercial bank profit rates and banking concentration in  
Canada, Western Europe, and Japan

Source: Journal of Banking & Finance

A test for variant objective functions in credit unions

Source: Applied Economics

HOW MUCH DOES INDUSTRY MATTER, REALLY?

Source: Strategic Management Journal

The home country in the age of globalization: how much does it matter for firm performance?

Source: Journal of World Business

When For-Profits and Not-For-Profits Compete: Theory and Empirical Evidence from Retail Banking

Source: Managerial Finance

The Impact of Credit Unions on the Rates Offered for Retail Deposits by Banks and Thrift Institutions

Source: Finance and Economics Discussion Series

Is performance driven by industry-or firm-specific factors? A new look at the evidence

Source: Strategic Management Journal

Linking provided by  Scholar Explorer

## Related research

People also read

Recommended articles

Cited by  
18

## Information for

[Authors](#)

[R&D professionals](#)

[Editors](#)

[Librarians](#)

[Societies](#)

## Opportunities

[Reprints and e-prints](#)

[Advertising solutions](#)

[Accelerated publication](#)

[Corporate access solutions](#)

## Open access

[Overview](#)

[Open journals](#)

[Open Select](#)

[Dove Medical Press](#)

[F1000Research](#)

## Help and information

[Help and contact](#)

[Newsroom](#)

[All journals](#)

[Books](#)

## Keep up to date

Register to receive personalised research and resources by email



Sign me up



[Copyright © 2025](#) [Informa UK Limited](#) [Privacy policy](#) [Cookies](#) [Terms & conditions](#)

[Accessibility](#)

 **Taylor & Francis Group**  
an Informa business

Registered in England & Wales No. 01072954  
5 Howick Place | London | SW1P 1WG