Product Development and Product Governance in Financial Cooperatives

Olufemi Sallyanne Decker

University of Greenwich
Old Royal Naval College London SE10 9LS
o.s.decker@gre.ac.uk

Conference Draft
Please do not quote without permission of the authors.

Paper presented at the 6th Organisational Governance Conference

Federation University Melbourne Australia

8th -10th September 2016

Product Development and Product Governance in Financial Cooperatives

Olufemi Sallyanne Decker

University of Greenwich
Old Royal Naval College London SE10 9LS
o.s.decker@gre.ac.uk

Abstract

Governance issues in financial cooperatives have attracted a lot of attention recently, due to their relative stable performance during the global financial crisis. The role they play in the financial landscape differs from county to country. In spite of the growing interest in them little is known of how British credit unions embed and account for their responsibility to customers through the products they offer. This paper addresses this gap in the literature by applying governance theory in order to develop a conceptual framework that captures the key relationships, responsibilities and governance mechanisms that are significant in credit union product development. A longitudinal case study is used to explore the experience of a leading credit union and the challenges that it faces in product development. The paper finds that the strategic, compliance and accountability aspects of governance of product development are made more difficult by the ambiguity and stigmatisation that surrounds credit union identity, resource dependency and skills capacity at board and conduct/product risk management levels. If credit unions are to appeal to a broad spectrum of society and widen their product range en masse into regulated products they should have in place demonstrable and auditable governance structures and procedures throughout the product life cycle so that they can not only deliver on their regulatory responsibilities but also deliver practically, not just ideologically, on their ethical responsibilities.

1. Introduction

Credit unions are not for profit financial cooperatives whose defining characteristic is a membership requirement known as a common bond. The common bond specifies who is eligible to join a particular credit union. This common bond is based a social connection which could arise through area of residence, occupation or place or work, association or a combination of these. Traditionally, the common bond is used as a mechanism to minimise the risk of default on loans and facilitate a form of member intermediation. As not for profit financial institutions, credit unions are 'actual and potential participants in financial markets whose main purpose is not to make economic profits for distribution to external providers of capital or managers, but to meet other objectives (Batiz-Lazo and Billings 2012).

The first credit unions emerged in mid nineteenth century Germany to provide credit to artisans and farmers who were underserved by the financial institutions of the day (Fonteyne and Hardy 2011). Croteau (1963) described them as institutions that *'seek to protect the weak, to save them from the extractions of usurers. They emphasize voluntary action, the democratic dream, the development of latent abilities found in the common man.' P3.* Today across the world, credit unions remain non-discriminatory, committed to social responsibility principles as specified in the operating principles set out by the World Council of Credit Unions and offer services to a range of customer groups in accordance with aims other than profit-maximisation.

It is this commitment to social responsibility, and the community focus of credit unions, that has encouraged policy makers in Britain to focus on credit unions in their financial inclusion policy discourse. In particular, credit unions have been linked to concerns over products such as payday loans and some current accounts offered by banks. Product related scandals have been widespread in retail banking in recent years. Issues such misselling of payment protection insurance and interest rate derivatives, unauthorised opening of current and savings accounts and the poor design of subprime mortgage products impact on a wide range of stakeholders and suggest significant underlying problems with responsibility and governance in manufacturing and distributing financial products.

Product failure does not only result in consumer detriment, but has costs and adverse consequences for owners/shareholders, taxpayers, regulators, government and society in general. Financial firms have been widely condemned for failing to address properly the market place, community and social responsibilities that they have in areas of financial stability, financial sustainability and financial inclusion. They have also been challenged for failing to create cultures in the workplace that would promote ethical behaviour in sales transactions. Ensuring that financial firms operate in ways that do not cause consumer detriment is at the forefront of a renewed focus on conduct of business rules and of the efforts of specialist conduct regulatory agencies such the Financial Conduct Authority (FCA) in the UK and the Consumer Financial Protection Bureau in the US.

The FCA was established in the UK in 2010 with the mandate to secure an appropriate degree of protection for consumers, promote effective competition in the interests of consumers in financial markets and protect and enhance the integrity of the UK financial system. Resolving dilemmas around core products or services is an important part of doing business responsibly. The predecessor to the FCA, the Financial Services Authority had set out principles for the fair treatment of consumers in 2004. This initiative was extended by releasing guidelines for Treating Customers Fairly in product design in 2007 and also by a Product governance sourcebook in 2017.

This study aims to contribute to the literature on responsibility and governance in the financial services sector and cooperatives, by examining the issues that credit unions face as multi stakeholder organisations in product development and governance. The focus of many recent studies on credit unions is on measuring financial performance or marketing (Goddard *et al.* 2008, Glass *et al.* 2010, Forker et al. 2013, Bryne and McCarthy 2014). To date there have been no studies on product development in British credit unions which aims to understand the mechanisms that exist to ensure that product development and management are effective, efficient and sustainable activity. Decker (2010) discusses how credit unions use product development to demonstrate social responsibility but does not explore issues relating to product governance. This paper aims to address this gap in the literature by evaluating the context within which credit unions undertake product development and by proposing ways to strengthen product governance.

We argue that the structural changes that have taken place in the British credit union movement have resulted in a situation where credit unions face the potentially conflicting products and accountability requirements of a diverse and fluid set of stakeholders that includes members, partners, funders and regulators. Furthermore, matters relating to product governance are largely ignored in credit union boardrooms, because of unchallenged assumptions and beliefs that credit unions are ethical from a consumer protection perspective due to their social goals. However, if credit unions are to grow in size and expand their product range to include ‘regulated products’ that require advice, they would need to demonstrate product governance capabilities which would require them to strengthen all aspects of governance.   Credit unions would have to amend their governance

to ensure that they demonstrate, in an auditable way, how effectively they use resources and create value for consumers, the communities in which they are based and society.
The next section provides a background of credit union development in Britain. This is followed by a literature review that draws from and applies theoretical perspectives on corporate governance to provide a lens for exploring the product development experience of a large credit union. Challenges for product governance are identified and principles that would underpin at product Governance framework are suggested. The conclusions consider implications for credit union directors and managers, policy makers and academics and suggest directions for future research and a future research agenda are outlined.

The credit union sector in Britain

Credit unions were first established in Britain by immigrants from the Caribbean islands in 1964. The first credit unions were registered in 1964 in Wimbledon and Hornsey in London. The migrants who set up the credit unions had experienced difficulties accessing financial services from banks so reverted to setting up credit unions which they were familiar with from their operations in their countries of origin. Credit unions have been introduced to the Caribbean island by priests from the US and through the efforts of the World Extension Bureau, an arm of the Credit Union National Association in the US.
Table 1 below shows that, in the past 10 years while the number of credit unions had decreased by almost 40%, credit union membership has doubled. Loans, assets and deposits have also experienced significant growth. Of concern for the capability of credit unions to manage this growth effectively is the fact that the number of paid staff has not increased in line with the growth experienced in membership and activity. Credit unions in Britain have traditionally been run overwhelmingly by volunteers, usually drawn from the area covered by the common bond.

Table 1

	2017	**2007**	
Number of credit unions	305	501	(39.12%)
Membership	1,290,545	607,400	112.5%
Paid Staff * (makes significant use of volunteers)	1700	1144	48.6%
Total Assets	£1.5 billion	£599million	150.4%

Total deposits	£1.25 billion	£449million	178.3%
Total Loans	£ 803million	£393million	104.32%

Source: PRA figures

In the early years of the credit union movement, the common bond requirements were quite restrictive. When it was passed, the Credit Union Act of 1979 set a membership ceiling of 5000, maximum loan size of £3500 and maximum savings of £2000. These restrictive conditions fostered a credit union development model that was characterised by small and closed common bonds, economic fragility and lack of stability. Credit unions were financially dependent and often run in the interests of the volunteers who operated the credit unions rather than the members (Jones, 1999) . In terms of products, the main attraction was low cost loans. Jones (1999) argued that this model did not foster growth as growth was seen as a threat which would dilute the power of those 'ruling' the credit union. In addition the range of services offered by credit unions was limited to savings and loans that were linked to savings.

When the common bond requirement is important in informing consumer lending and reduces information asymmetry, small credit unions can take advantage of the tighter bonds to lower screening, monitoring and enforcement costs. With advances in technology, the advantage of the common bond requirement for consumer loans is much reduced and credit unions naturally would be expected to move towards offering other lending products in addition to consolidating and growing larger. All credit unions in the world offer savings and loans services to retail customers as their core products. In most Western advanced economies, with the notable exception of Britain, many credit unions are full scale providers that compete with banks. However in Britain, the majority only offer the core savings and unsecured loan products with a very small number offering current accounts and mortgages.

British credit unions have not experienced the same growth and widespread establishment which credit unions in other developed countries such as Canada, Australia and the United States have shown. In these countries, credit unions are the main competitors of banks. Several studies have forwarded different reasons for the rather lacklustre development of British credit unions. Apart from restrictive regulation other reasons suggested are weak and conflicted trade associations, slow credit union professionalisation, welfare state intervention and policies of subsiding credit unions as charities and the assumptions, beliefs and misunderstandings that have underpinned credit union development (Donnelly and Khan 1999; Jones 1999).

There was a general consensus at the beginning of the 21st century that the key to sustainability was for credit unions to be able to serve a heterogeneous member base with suitable products. As a result, there have been efforts by policy makers and the credit union movement itself to develop the sector so that credit unions could play a more meaningful role in British society. Much of this change has been motivated by efforts to address financial and social exclusion in Britain. The UK's Labour government that was elected in 1997 prioritised the issue of social exclusion and developed a policy and strategy for financial exclusion. Since then successive governments have expressed a view that credit unions are well placed to promote financial inclusion in British society.

The definition of financial exclusion that has been widely adopted in Britain has a distinctive product orientation. Financial exclusion is characterised by having no bank account, no savings, a lack of affordable credit, no assets, no access to money advice and no insurance (HM Treasury, 1999a, 1999b; 2004; 2007a; 2007b). To promote financial inclusion, which is defined by (Cámara & Tuesta, 2014) as the process by which access to and the use of formal financial services are maximised, whilst minimising unintended barriers, perceived as such by those individuals who do not take part in the formal financial system, Kempson and Whyley (1999) recommended that product design is one of the factors that would have to addressed. Other factors are barriers to entry, delivery systems, legislation and government policy. With less than 1% penetration rate in 1999, credit unions had however, played a limited role in the British financial system and were regarded as 'Britain's best kept secret' (Griffiths and Howells, 1990).

The Association of British Credit Unions (ABCUL) has been instrumental in driving credit unions to transform into 'new model credit unions'. Unlike old model credit unions, the new model should be able to attract members from all socio-economic backgrounds through product diversification and formal structured and commercially focused organisational procedures (Jones 2008, Forker et al. 2013) These new model credit unions have to possess certain characteristics if the sector is to develop sustainably. These included a strong capable board with the skills, sense of urgency and capacity to drive the credit union towards sustainability' as well as the ability to lend responsibly and research what members want in order provide products that meet those needs. The new model focused on governance, marketing and relationship building skills, expertise in lending, savings mobilisation and payments facilities.

Credit unions were brought under the regulation of the Financial Services Authority (FSA), which also regulated banks and building societies in 2002. A corollary of coming under the regulatory remit of the FSA was that savings with credit unions also became covered by deposit insurance through the Financial Services Compensation Scheme. Before this, credit unions were regulated by the Registrar of Friendly Societies. When the FSA took over the focus was on ensuring that credit unions are financially robust and well managed ----- not on their product development or quality of service. The introduction of this new regulatory regime was important in strengthening of credit unions as financial institutions and in developing a culture of compliance. All credit unions had to meet defined threshold conditions and prudential standards which are set out in the credit union sourcebook CREDS.

Since taking over responsibility for regulating credit unions, the then FSA,) identified poor governance as a factor that had contributed to the failure of credit unions after they came under its remit (Canham 2008). This led the credit union trade association, ABCUL to first introduce a financial management and performance measurement tool, PEARLS developed by the World Council of Credit Unions (WOCCU) in 2002 and then a voluntary Corporate Governance Code for credit unions in 2008. The code has 45 elements covering 4 main areas - compliance and continuity, integrity and accountability, skills and ability and structure and principles of good governance.

Government policies which target credit unions as vehicles for promoting financial inclusion have direct implications for credit union products, strategic direction and governance. Credit unions involvement in the provision of affordable credit has gained the most attention from policy makers (Sinclair 2014). A form of government contract funding was directed at credit unions in the form of the 'Growth Fund' This fund was significant in changing the loan products that credit unions which participated in the scheme offered and it also altered their member bases significantly. Apart from the impact on membership, credit unions relied on this funding to achieve sustainable growth (Dobcheva 2015). Use of government funding for credit union development has been controversial, with many academics arguing that this funding and the continued association of credit unions with financial exclusion would hinder rather than promote credit union growth. The contention is that the policies put credit at a disadvantage, by placing on them a responsibility to create new products. Furthermore the policies would also lead to the development of a two-tier credit union system (McKillop et al. 2011, Sinclair 2014). The movement itself has expressed some dissatisfaction with the way in which credit unions have been systematically associated with financial exclusion in government policy discourse (HM Treasury 2014).

While some of the efforts to transform the movement may have contributed to fulfilling the economic goals of credit unions, there has been come concern about the impact on their social goals. A recent study by Forker et al (2014) investigated whether the new credit union model which aims to encourage 'for –profit financial management practices' in credit unions affected their ability to deliver on their social responsibilities in terms of community impact. Although the study did not find any evidence to support this concern, it highlighted that a failure to balance economic and social goals by those responsible for governance in hybrid organisations like credit unions, can lead to mission drift and threaten their sustainability.

Literature Review: Corporate and Product governance issues in cooperatives

Governance issues in cooperatives, have been explored generally from strategic, performance, accountability and other perspectives but less so from a product perspective. Corporate governance itself is a much debated multi-dimensional construct which may make it difficult to pursue a comprehensive study of governance in any type of organisation. One view of corporate governance which would be appropriate in the context of a discussion on firms with social and economic goals is offered by Sethi (2002). In this definition, corporate governance is viewed as a means of creating a balance between the economic and social goals of a company. The scope of corporate governance would therefore include the efficient use of resources, accountability and the behaviour of the corporation in its social environment. Sun et al. (2010) argue that because of the difficulties in matching different views of corporate governance with the realities of corporate governance systems, it would be helpful to view corporate governance as a system comprising regulatory, market, stakeholder and internal governance.

Regulatory governance is of particular significance in the financial services sector where concerns about financial stability, information asymmetry and unfair competition are frequently cited as justifications for regulation. Since 2007, regulators have become more concerned about how financial products can cause detriment to consumers due to behavioural biases and opportunistic behaviour on the part of firms. In the financial services sector, conflicts arise because of information asymmetry between institutions and consumers and dilemmas and because of the long term and intangible nature of the products (Llewellyn 1999, 2007). The concern that financial firms, in pursuit of their shareholder profit maximisation goals, may seek to achieve these goals at the expense of customers and society at large, provides a rationale for regulation. Product failure can undermine trust and confidence and also have considerable social costs leading to widespread losses.

Excessive risk taking, from prudential and conduct perspectives are seen as threats to financial sustainability and stronger governance can play a role in minimising these risks and in enhancing accountability. Aras and Crowther (2008) point out how in the financial services sector, the quality of corporate governance is becoming one of the most important indicators for measuring risk. How governance processes and structures are being used to ensure corporate responsibility and sustainability are embedded in the operations of businesses is a growing area of interest not only to policy makers but also in the academic literature (Klettener et al. 2014, Aras and Crowther 2008,

Product governance

FSA (2011) defined product governance as 'systems and controls in relation to product design, product management and distribution strategies'. It encompasses the policies, procedures, mechanisms and infrastructure that a firm puts in place to design and develop products for target markets, sell, monitor and evaluate the performance of products with a view to safeguarding the interests of stakeholders. The regulator's concern stems from a belief that firms could be too concerned about profit as compared to the outcomes for consumers leading to consumers being missold products or buying products that did not deliver value. Azgad-Tomer (2014) compared the rights of consumers and investors and makes a case for consumer-oriented corporate governance and informational accountability because of the need consumers have for information to make effective product choices. In the financial services sector, regulators have recognised that the nature of financial services products and behavioural biases can lead to inefficient outcomes and have mandated certain disclosures in the sale of regulated products (Llewelyn 1999, Kovacs,2015) Nevertheless, Muniesa and Lenglet (2013) point out that the financial sector lags significantly behind other sectors in the application of principles of product testing and vigilance to new products. What the product governance agenda of the regulators reflects is an attempt to articulate not only the tougher attitude towards product and conduct risk but also the nature of the process and how it is influenced by different stakeholders – internally as well as externally to produce a complex web of interaction.

There are several aspects to product governance starting with a board's responsibility for setting strategic direction and considering the viability and sustainability of products, to setting the tone and culture for firms to behave towards customers in an ethical manner, setting structures for taking account of and managing product risks, clarifying and allocating responsibility for product development and management and monitoring performance. Effective product governance should reduce the scope for irresponsible and intentional actions that seek to abuse trust and information asymmetry and ensure that the reasonable expectations of consumers in financial transactions are met. It also has implications for communities and society at large. Retail banks make financial promises to the communities that they serve which they deliver in the form of products. The risks that are inherent in products could mean that a financial institution may be unable to deliver on its promise. The drive for product governance can be seen as part of a wider move to 'legalise' what would be construed as ethical responsibilities and also to bring personal responsibility to bear on those who supply financial services and . Strong product governance and the perception that product governance is taken seriously impacts on how the firm is assessed by customers, building confidence in external stakeholders and influences the relationship and dialogue with regulators in a positive way.

Customer issues in cooperatives

The breakdown in trust and confidence in the financial services sector which accompanied the global financial crisis has fuelled interest in credit unions and other financial cooperatives. They were found to have been more resilient than banks in the global financial crisis which has been attributed to the fact that they do not have to fulfil shareholders' profit expectations and would therefore have a longer term strategic perspective(Birchall and Ketilson 2009, Birchall 2013, Becchetti et al.2016.)

Cooperatives are hybrid organisations in which the members are also the owners. Ebrahim et al. (2014) distinguish between differentiated and integrated hybrid based on whether the consumers of an organisation's products are also the beneficiaries. Using this distinction, credit unions are integrated hybrids because the revenue generating activities offered to customers also enable these organisations to achieve their social mission and operate sustainably. Therefore they achieve their mission by integrating beneficiaries as consumers. While it may be possible to identify different customer segments in an integrated hybrid, the customers and the beneficiaries are not distinct groups.

Hybrid organisations face unique governance challenges, not least because of stakeholder related issues (Cornforth 2004, Labie and Perilleux 2008, Spear et al. 2009). Stakeholder governances which Sun et al (2010) define as 'the direct and indirect control or influence over corporate business, decision-making and corporate behaviour by key stakeholder groups who have direct or indirect interests in the corporation' can be particularly important especially in terms of creating and resolving dilemmas in areas products and services and services. How these conflicts are resolved is an integral part of the governance of cooperatives and have implications for their internal governance and the role of the board.

The Board of directors is central to any governance process. As the main corporate governance mechanism of any organisation, a board of directors is ultimately responsible for oversight of developing sustainable product market strategies and for product governance. Boards are responsible for ensuring that the products and strategic direction of an institution adds value to that institution, creates benefits for its owners and that by supplying a product the organisation does not take risks that would have adverse effects on its continued existence and on society in general.

Both the classic agency theory and stakeholder theory are agreed that the role of governance is to address conflicts so that the interests of primary stakeholders are met. Unlike the classic agency theory which focuses on the relationship between managers and shareholders, the stakeholder view of the firm argues that organisations have wider responsibilities. In the case of social enterprises and cooperatives like credit unions, that have economic and social goals, this principle of shareholder value maximisation is replaced with notions of sustainable growth and overall performance. Product governance focuses specifically on the relationship that a firm has with customers and the capacity of the firms to acquire and deploy its resources and systems so that the needs of these customers are met in a way that is fair for consumers and without adverse consequences for any other parties.

While the issue of product governance arises from a focus on the contracts and relationships with customers, they are not the only stakeholders that have a bearing on product governance. Freeman and Reed (1983) define stakeholders as 'any identifiable group or individual who can affect the achievement of an organisation's objectives or who is affected by the achievement of an organisation's objectives '. A problem with the approach is that it becomes difficult to reach agreement as to who is a stakeholder. This has led to steps to link the definition of stakeholders to an exchange relationship between the organisation and another constituent. Sachs & Rühli (2011) argue that stakeholders provide resources or influence in exchange for some combination of tangible and/or intangible goods. As it takes a broad view of a firm's responsibilities and recognises the existence of conflicts of interests between different stakeholders, stakeholder theory is useful when considering what influences can come to bear on a firm's product decisions and relationship with consumers and how these can be managed. Unlike agency theory that is often associated with the separation thesis, stakeholder theory brings the issue of ethical responsibilities and accountability to different constituents into the governance discourse.

Typically financial cooperatives are framed in the literature as stakeholder value organisations (Groeneveld 2012). In financial cooperatives, there are many overlapping stakeholder constituencies. The members are also the owners and customers. Often the managers of credit unions are also members and consumers. The owners elect the board from the membership so the boards are comprised of lay volunteer directors. As Fonteyne (2007) points out when interests of overlapping constituencies do not align, decision making can be complicated. We argue that these overlapping stakeholder constituencies can present particular challenges for product governance and may lead to due care and attention not being given to all aspects of product governance. Furthermore, these overlapping constituencies occur because of the duality of the goals of the cooperative.

Stakeholder theory argues that consumers, like owners, make a contribution to a business (in the form of revenues) they should expect to receive value in return. It would be all too easy to argue that a focus on consumer oriented governance is not needed in cooperatives because they exist to serve their member-customers. Weaknesses in several governance mechanisms may result in some groups of consumers, if not all, being treated unfairly.

Fonteyne (2007) points out that while members of cooperatives are ‘owners’, they do not have the same rights as shareholders. The members’ ownership rights are limited in the sense that cooperatives do not have the objective of maximising member value but have dual social and economic goals. So value is created through other benefits. What value and benefits are created is linked to the strategic direction of the organisation. Theoretically, owners/members have power through their voting rights which can be used to exert pressure on management. The caveat here is that concentrated membership is needed for voice to be effective as a governance mechanism. Research has shown that member participation in cooperatives is weak. Goth at al. (2012) found less than 3% participation at AGMs for credit unions in Ireland. Thus, in reality, this power is not used effectively. The strength of consumer does not then lie in the overlap with membership but would depend on the existence of competitive markets which can offer alternatives. Bearing in mind, the link between credit unions and those who are financially excluded, it is most likely that such a competitive market to which consumers can exit would not exist.

Coincidence of owners and consumers does not mean that the interests and rights of owners and consumers are perfectly synchronised. While much is made of the benefits of democratic membership, when it comes to product development, these members could have little input in the design of product features or in how controversies are addressed. Hence democratic membership does not always translate into democratic participation. Conflicts exist between borrowers and savers because of the dominance of one group. While some products may create value for a group of consumers, other consumers may not enjoy the same benefits. Similarly, whilst savers can easily exit from a credit union, most members have savings as well as loan contracts. The costs of abandoning long term financial contracts may be prohibitive so consumers become locked in. As for many consumers, a credit union may provide the only means of access to reasonably priced financial services, competitive markets would not act as a governance mechanism in these circumstances. This limited choice is exacerbated by the fact that the common bond requirement may mean that these members qualify to use only one credit union. In these cases, consumers cannot exercise voice.

The rapid growth which many credit unions have experienced has been as a result of the promotion of credit unions as vehicles of promoting financial exclusion. The resulting change in the membership credit unions in terms of size and profile has weakened voice as a governance mechanism. It can be argued that for certain groups, the primary interest is in the value gained as a consumer rather than any returns from being an owner. There can be conflicts between borrowers and savers, depending on which group dominates. While all owners would receive dividends as and when the credit union pays them, users of some products would benefit more from the surpluses of the credit union in terms of favourable prices and fees. So, paradoxically while all owners are equal, all consumers are not equal.

Where a significant proportion of a credit union’s consumers is made up of members who have a low level of financial capability, then these consumers will find it challenging to make effective decisions that will enable them to choose the right products for their needs and also to realise value from the products they consume (McKillop and Wilson, 2015). Value includes fair treatment. Llewellyn (2007) outlines reasons why value creation in the case of financial products is not as clear cut as in the case of other products, giving rise to the need for a higher level of consumer trust. In its TCF framework, the FCA has emphasised that fair treatment of customers is to be embedded into strategy, culture and systems and controls. TCF is based on a regulatory principle for business which states that: A firm must pay due regard to the interest of its customers and treat them fairly.'

Ring et al. (2016) argue that the FCA's final notices provide a guide to industry about the behaviours that regulators aim to encourage as part of firms' ethical and risk culture and could play a signalling role in communicating what constitutes acceptable culture to financial organisations. The Board of Directors is responsible for leadership in the area of ethical culture and for ensuring that the organisation has in place an appropriately resourced risk framework that would provide timely and transparent information flows regarding risk as well as establishing accountabilities for risk management. The systems and controls should be robust enough to ensure that risks of customer detriment, prudential risks and product specific risks are measured and monitored.

In financial cooperatives, customer contracts give rise to additional governance issues because all customers are also depositors, although some may only be nominal depositors or hold deposits only to gain access to credit. Amongst other reasons, deposit taking institutions attract external regulation because of the risks of contagion, widespread disruption and reputational damage that can occur when they fail. Deposit insurance and regulation can also weaken incentives of owners for monitoring managers. Regulators, because of their views about the risks that an organisation's strategic direction can pose to the objectives of the regulator (both prudential and conduct) may seek to limit the activities of an organisation. For example, there may be a reluctance to allow credit unions to diversify into new product areas such as mortgages and a preference for credit unions to stay well within the less regulated and simpler consumer finance activities or to operate in a space where they can provide competition to pay day lenders.

Even though the managers of credit unions are usually members, there could be a divergence between the interest of managers and the general interests of members. In particular, managers may choose to prioritise their own personal interests in gaining recognition and in empire building or prioritise public policy interest or the goodwill of regulators instead of pursuing members' interests. As they do not receive incentives that are linked to growth of the company or performance, managers could be motivated by their own personal ethical beliefs and the desire to create value for members becomes the incentivising device for the credit union to take the risks associated with introducing new products. At the same time, risk taking can be constrained by the level of board resources and capabilities and the risk culture. If indeed managers see themselves as responsible stewards of the organisation's resources and assets and do not act as self-interested individuals, then the board and management would find themselves in a collaborative relationship as opposed to one in which the board controls. Mutual boards however are elected by members to vouchsafe the interest of members and also play a stewardship role which requires them to collaborate with rather than control management.

Stoker (1998) cited in Asante et al.(2014) defines the governance of financial innovation as relating to the processes and mechanisms used by stakeholders to manage and oversee the creation, development and commercialisation of financial products and services, and the activities of appointed individuals and/or institutions charged with steering innovation activity in that sector. While it is known that new product development is generally an informal process in which governance frameworks are not systematically employed and which typically can involve many stakeholders, the literature does not explore how these stakeholders interact or how they contribute to or impact on the process (Armstrong et al. 2012, Muniesa and Lenglet 2013 Asante et al. 2014) To address this gap in the literature Armstrong et al. (2012) discussed the potential for new product committees to act as a governance mechanism in banks and investment firms. The literature however does not address the case of small credit unions.

Accountability

Legitimate stakeholders expect firms to address agency problems and create value. They also expect accountability. Accountability is recognised as one of the principles of good governance and lies at the interface of governance and corporate responsibility. Boards are accountable for the results of governance processes. The governance challenge that credit unions, and all social enterprises face is determining to whom they are accountable, for what and through what medium that accountability can be made effective. While accountability for financial performance is common to all businesses, cooperatives are also accountable for their social performance. In addition, the emerging regulatory framework requires accounting for product performance. Indeed as Hydnman et al. (2002) pointed out, as credit unions expand their provision, accountability will assume greater importance.

In a narrow sense, the notion of accountability applies to situations where one party has an obligation to be answerable for its conduct and responsibilities to another party and where sanctions could be imposed (Bovens 2007). Accountability in the context of responsible product development is concerned with identifying and accepting the risks and negative outcomes related to a product, the ability to track and trace these negative consequences and the existence of clear lines of responsibility down to the individual level for these outcomes should they arise (Muniesa and Lenglet 2013). In social enterprises also concerned with respecting both financial and social goals

With growing interest in social responsibility of businesses and its impact on the legitimacy and credibility, all organisations need to consider accountability to a wider set of stakeholders. Co-operatives are particularly susceptible to being used to further development goals because they are seen as organisations that are underpinned and driven by values and therefore more accountable than private and public agencies. This may not be the case if an organisation, such as a credit union, is unable to determine the impact of its business activities and use this information in its decision making processes so that it balances the needs of its stakeholders. Performance measurement does not only aid management control but also facilitates transparent reporting of accounting information to meet accountability demands. Hyndman *et al.* (2002) argue that in discharging accountability, management is encouraged to concentrate on issues that are important to stakeholders who often provide resources for an organisation to function and who are also outside the immediate management of the organisation. In their study of UK credit unions, Hyndman et al (2002) reviewed 120 annual reports of credit unions and found that 'accountability in financial and non-financial terms, including that relating to wider social accountability is weak'. Factors which they believe may explain this finding include confusion arising from multiple accountabilities, limited resources and expertise. Credit unions are grounded in the co-operative philosophy of providing service to members. It is this idea of services provision that has made them attractive as vehicles to recruit and serve members who otherwise would not have access to financial services. In an era of heightened awareness of social responsibility, it is not only policy makers but also NGOs and financial institutions that seek to collaborate with them to achieve a host of objectives. To capture how their products contribute to their social performance, their performance reports should reflect product information.

The governance of social enterprises and financial cooperatives presents specific challenges which have been widely considered in the literature (Cornforth 2004, Cuevas and Fischer 2006, Birchall 2014, Groeneveld 2015). These range from problems with electing people with the right skills, expertise and experience to difficulties in fulfilling some board roles such as shaping strategy and risk assessment and managing tensions between stakeholders and the enterprise's dual goals (Spear et al 2009.) Product governance is often approached by regulators from a life cycle perspective – progressive responsibilities throughout the life cycle and also depending on the permissions that a firm is seeking. This is a limited approach for examining the role of boards in the process because it focuses predominantly on the customer as separate from owners and on conduct risks. For credit unions, it is worthwhile, adopting an approach to product governance through the perspective of multiple stakeholders. This will take into account the context within which product development and value creation occurs, the complexity of stakeholder relationships in terms of overlaps and conflicts as well as capture the responsibilities and risks that arise with the process. The regulator's definition of product governance is quite narrow in scope and focuses essentially on a compliance approach to fair treatment of consumers. While it is outside the remit of regulator to define or dictate culture, regulators do see culture as an integral part of good governance, regulatory compliance and fairness.

Credit unions and product governance

In recognition of the issue of goal duality and the overlapping relationships that this creates in credit unions, we adopt Cornforth's definition of organisational governance as one which captures key elements for engaging with product governance. Drawing from Cornforth's (2014) definition of organisational governance, we define product governance for the purposes of this study as 'the systems and processes concerned with the overall direction, control and accountability of an organisation and the ethical culture within which these are embedded. We feel that a definition of product governance should explicitly take cognizance of culture and should be approached from a broader perspective in which controls are aligned with strategy and accountability as these are crucial to the mission and the continued existence of an organisation.

The FCA's approach to product governance defines organisational responsibility narrowly in terms of consumer detriment. It therefore does not take into account a range of other product related responsibilities that arise in instances where organisations have both economic and social goals or where there are overlaps between ownership and consumption. As such this regulatory approach does not address other governance failures that are associated with product development in cooperatives, such as mission. A more nuanced and customised approach to product governance is needed for cooperatives and credit unions to ensure a balance between economic and social goals is maintained. With specific reference to the issues facing British credit unions the next section outlines potential governance failures in product development and presents principles capture important areas of product governance. This can inform research design and also act as a framework for guiding the Boards of credit unions with regards to their role when deciding on or having oversight of product development.

Credit unions are susceptible to a number of governance failures in specific area of product development. The first failure is in terms of the inequitable value distribution which can occur through product development because of the domination of a particular customer groups. Product development is a means of value distribution, especially where dividend payouts are low and where accounts do not attract interest payments. In order to distribute the surplus of a credit union in an equitable manner, it is imperative that the range of products that is available caters for different customer groups. The literature on corporate governance in credit unions widely recognises the distinction between saver dominated and borrower dominated credit unions. This distinction cannot be applied without adjustment to the specific differences that occur in the British context where a distinction between employed and community members may be more salient rather than a distinction between saver dominated and borrower dominated credit unions. The largest community credit unions started life as occupational credit unions but have now through common bond changes become community credit unions. With this change, much of the recent product development has been geared towards providing those services that are associated with exclusion -transaction banking and payday lending as opposed to products that may be suitable for members with a different financial profile.

The next issue is failure due to a drift in strategic direction as a result of the conflicting demand of stakeholders and the level of resource dependency of the credit union. These factors may lead a credit union to fail to have corporate governance systems that set a strategic direction based on sustainability considerations. Instead strategic direction is more likely to be based on the agenda of external stakeholders, management preferences, funding short term solutions to Asset and Liability Management problems and in so doing fail to take account of unintended consequences of particular actions. In the case of British credit unions, they are particularly open to the influence the government's financial inclusion agenda, the FCA's risk to objectives agenda which has been primarily designed with for profits institutions in mind, the views and positioning of the trade association ABCUL and the ease with which synergies can be gained through collaborations with other partners in the cooperative movement. The product governance issues and framework outlined by the FCA are process driven, linked as they are to the product life cycle. They will address/prevent corporate governance failures that answer the question relating to the steps that an organisation has to follow to develop a product and can be used to determine from a regulator's perspective whether products were developed responsibly. In this sense they serve a compliance purpose and are designed to help the regulator to minimise the risks to its own objectives.

Central to product governance is a concern for the harm that poor product design or unfair treatment of customers might cause. The third potential failure is a concern that due attention would not given to fair treatment of customers. This would be caused by a mistaken belief that inclusion equates to fairness. Having identified these areas of potential failure, by extension it is possible to make a number of assertions about what good governance for product development purposes in credit unions will cover so that the system will enable several product responsibilities to be discharged.

A good product governance system for credit unions would systematically integrate several perspectives. We propose a framework with four perspectives of effective product governance which would enable a credit union not only to comply with the production process and delivery elements that are captured by the regulator's product life cycle approach but will also address the resource, strategic direction and values issues that are specific to credit unions. These four perspectives are the regulatory, strategic, capabilities and values perspectives.

The regulatory perspective relates to the requirements of regulators as specified in product related regulations that govern the different processes in the product life cycle process

The strategic perspective will cover steps that are taken to understand and position the credit union within specific markets. This includes the ability to respond to different groups of owner clients through mechanisms that develop knowledge of customers, engagement and accountability.

Since the strategic perspective addresses the fit of the product portfolio with the member base and ultimately strategic direction, it will include a mechanism for the constructive challenge of product development plans to identify long term unintended consequences. It will also contain those elements that deal with measuring performance and address the societal impact and financial performance of all products.

The strategic dimension should be transparent to all parties therefore it will contain those reporting elements that will monitor performance and be accountable to the membership for and report on value distribution through product development to customer groups within the membership. The kevel of reporting should also be explicit and transparent with regards to the influence of external stakeholders.

How value is distributed through products is a key strategic decision for a board. The strategic perspective covers those mechanisms that provide product related management information which allows the board to evaluate how value is being created for each of these groups through products offered and is transparent about how value is created for each of these groups. Good product governance will address risk culture and management information system – (prudential, strategic and conduct) and allocate responsibility to clearly defined roles and people

The capabilities perspective focuses on identifying and acquiring and establishing the resources, capabilities and competence that will allow a credit union to develop product governance systems so that it takes account of product risks and how they interact adequately. Good product governance will identity and address product specific organisational resource gaps and capabilities gaps in the board and management

The values perspective relates to the systems that outline, operationalise and embed values of fair treatment of customers and community embeddedness. Good product governance will address consumer detriment and fair treatment of all customers explicitly through clarification of understandings, policies and procedures. It will also outline show through product development the credit union impacts on the community in which it is based.

Longitudinal Product Development Case Study

This single case study which is based on an analysis of archival materials and interviews with the CEO and Senior Manager of a large credit union sought an understanding of the approach that has been adopted towards product development and governance of the process. A particular aim was to develop an understanding of the product approval process and the possible influence of various stakeholders on product development and governance.

The case study approach was adopted as the emphasis of the study is on exploration. Case studies are useful for investigating behaviours and attitudes and also take into account the specific characteristics of the organisations considered in the study.
Yin (1994) recommend the use of case studies for exploring phenomenon in organisations. Secondary data was collected through project evaluation documents, policies and other artefacts and documents provided by the credit union. Primary data was collected from

semi structured interviews with the credit union CEO, Senior Manager and Compliance Officer.

Background

The credit union is 36 years old and was created as a small work based volunteer cooperative, with limited capacity and infrastructure. Up to the end of 2003, the credit union offered members a restricted range of savings, loans, insurance and money transfer services with savings being a prerequisite for borrowing. In 2000, the credit union changed its original employee common bond to a live or work common bond and started to operate as a community credit union. The live or work common bond was introduced in 1999 following a change in credit union legislation. Mergers with two community credit unions had significantly altered the credit union's membership base by 2003.

Currently, the majority of its members (60%) come from the community rather than from employee groups, a reversal of the credit union's profile up to 2003. Today the credit union offers savings products, consumer and payday loan products as well as a current account. It is also in the investigative stages of developing a mortgage product.

Findings

Strategic Direction and Product Development

Up to 2003, the credit union had offered the core offering of shares (savings) accounts and small unsecured consumer loans. The credit union started developing its product range in 2003. The first new product introduced was a Benefits Direct Account. This was accompanied by a change in the lending technology. The idea for the new product was generated as the outcome of two earlier projects. One was a collaborative project with two housing associations to explore whether credit union products could benefit housing association residents and the second was from the PEARLS pilot project. The project with the housing association was part of wider suite of projects collectively known as the CHANGE project. This was funded externally by housing associations. The credit union received funding to appoint an outreach worker who was to undertake market research and product development. An aim was to embed the credit union as a community credit union given that it only changed its common bond from occupational to live and work in 2000.

A new product called Benefits Direct was developed as a result of the CHANGE scheme. The Benefits Direct Account made it possible for members to have their social security benefits paid into accounts held at credit unions and for them to borrow against their benefits. This product did not only fit in with a new government policy to have all benefits paid into accounts, it also started to create a new distinct customer group within the credit union's membership.

Extracts from the credit union's project evaluation reports for the Change project noted revealed that *Product developments imposed extra demands on credit union staff who had to find new ways of integrating these extra demands into their every day routines.* The introduction of this product led to a marked change in the member /customer profile of the credit union compared to when it was just an employee credit union. However, the deep rooted belief among staff that the purpose of the credit union is to serve and to 'help people' seems to be strong enough for customer facing staff to embrace the changes in their work processes .

The credit union also adopted new lending policies which broke the link between amount saved and loans. Loans were now made on the basis of ability to pay and not on the basis of multiples of savings. The adoption of the new loans policy, supported by changes in legislation, led also to the dismantling of a key governance structure, which became redundant -the Board's credit committee. Techniques for assessing affordability based on income and expenditure were developed. Preparing staff for change and changing the mindset was highlighted as a particular concern in the process and one of the evaluation's recommendations related to this.

'*Notwithstanding competing demands for share of mind of employees, more time would need to be invested in <u>internal marketing</u> of the credit union proposition to client-facing prior to initiative launch'*. *Front line staff should be more involved in any future initiatives. This may have ramifications for training*.

The credit union has also oriented its thinking towards competition with high cost home credit companies. The interviews revealed that a particular focus of the credit union became to *'get people away from the loan sharks'*. In this respect the credit union is positioning itself strategically as an alternative source of credit for borrowers who might typically resort to non status and sub- prime lenders. With interest rates ranging from 12.7% to 26.8% APR (prior to 2011), charged on a reducing balance basis, credit unions have a comparative advantage in providing credit to the financially excluded. To secure this market, the credit union did not only have to lend without requiring members to save for 3 months before borrowing, but also provide regular and instant access to cash. The change in loan policy, prompted by PEARLS, enabled the credit union to grow and to respond more effectively to the government's financial inclusion agenda by playing an increasingly significant role in serving low income and excluded communities.

Encouraged by their success in growing and widening their membership through these innovations, the credit unions signed a contract in 2006 with the Department of Work and Pensions to deliver the government's Financial Inclusion Growth Fund loans to economically disadvantaged groups. This has increased credit union membership significantly and developed the credit union's expertise in assessing the credit worthiness of a new group of members.

Credit Union Current Account

At the end of 2006, the credit union ventured into transaction banking by offering credit union current accounts with a debit card in a partnership with the Cooperative Bank. This was introduced as a project between the Cooperative Bank, the credit union trade association ABCUL and a consortium of nine credit unions.

In the forward to the evaluation report for the current account project, the then CEO of the Cooperative Bank, David Anderson, outlines how engagement with credit unions is part of the bank's own financial exclusion strategy.

> *'Since 1998, our commitment to credit unions has been enshrined in The Bank's customer mandated ethical policy. This commitment forms a key part of our financial inclusion strategy and our support for the wider co-operative and mutual movement, sharing the same co-operative heritage and values.*

Stakeholders and Product Development

External stakeholders have played an important role in the development of current account and lending products. The credit union seems to have attracted patronage from a number of external stakeholders because of the characteristics of trust, co-operative support and access to community networks with which the movement is associated in Britain. Openness to low income groups relates to the fact that credit union membership is open to all regardless of social or economic status. Geographically they tend to be located close to low income groups, in areas where banks have closed branches. Openness to low income groups stems from proximity through location and also the trust element of credit unions. This trust and the ethical values of credit unions also underpin the assumption of a willingness to progress members to mainstream banking.

Jones (1999) had found that just as there were a diversity of approaches to credit union development and practice, there were also different understandings as to the purpose and nature of credit unions. In particular, work based credit unions had a clear focus on providing a financial service while community credit unions had much broader perspectives around a range of social and economic goals. These findings indicate that proposals to involve credit unions in financial inclusion speak to the social perspectives of community credit unions and to the financial strength and viability of the work based credit unions and can be a source of conflict that Board members have to address in strategic direction of credit unions.

There have been strategic benefits from working in partnership with other organisations. These include assistance with marketing through distribution of materials by mail shot campaigns, support for research and secondary exposure through word of mouth and personal recommendation. The value of partnerships was highlighted by another interviewee who noted that '*our contacts in the financial inclusion forum help us to arrange leaflet drops so the information gets to the widest possible audience. It's [the forum] a good place for networking and making connections. For example, one leaflet drop arranged with the council can get to 45,000 homes. Because we are a community based organisation we cannot use some forms of advertising, like TV, radio or posters on buses because our services are for a specific group of people in a particular area*'.

Another interviewee noted *‘working with reputable partners continues to raise the awareness of services to potential members and increases our credibility with other organisations including the DWP*’.

The approach adopted for CUCA reflects that credit unions are part of a movement – a group that works together to advance shared political, social or artistic ideas. They are part of a network with other credit unions and co-operatives. Paradoxically, they are also unique and stand alone institutions by virtue of the common bond requirement which defines the unique field of membership of each credit union. However, as credit union grows there are increasing incidents of overlapping common bonds. This gives rise to the risk of violating recently introduced competition rules and should be an intrinsic part of risk assessment for product governance purposes for credit unions.

Approach to product development -

Another aim of the study was to explore the steps that are followed before a product is manufactured and distributed to ensure that product strategy is delivered. Specifically, the aim is to determine at what stages the board becomes involved and if a stage gate development process is in place.

There is no definition of a new product or a distinction between a product modification and a product development. The results show that the process is largely unstructured and depends on how the idea was generated, and the key players in its delivery. The credit union does not have a formal policy or new product development agenda or a coordinated plan for product development. Similarly, product teams or groups are not set up to work collaboratively to manage or develop products. Typically, one person would work on a project for the most part reporting to the CEO or the product would be designed by the CEO if not designed externally.

The majority of the product projects involved the participation of an outside funder or input in the form of expertise from an outside organisation. In one case, the credit union current account, the product was introduced as part of a coalition with other credit unions. The process was coordinated by the trade association, the Association of British Credit Unions.

Participating credit unions met at the offices of the trade association in Manchester till the product was launched.

The payday loan product was designed internally by the CEO. As there was the need for an online interface, an IT consultant was employed to work on the technological aspects. At the implementation phase, one other person worked closely with the CEO to implement the products. External expertise was also sought to embed psychometric analysis into the product.

No one person has been assigned responsibly for product development. Typically, it is the CEO who holds strategic responsibility. Officials were not familiar with the term product governance or with what it entails. The compliance officer revealed that following the visit from the PRA to interview the credit union's directors, a director had requested for product information. The compliance officer planned to develop a product dashboard and it was 'one of the things on the list' . However the compliance officer was not aware of the work that the FCA had published on product governance.

When questioned about market research, one interviewee responded *the credit union does not undertake extensive marketing research to identify the needs of the market and its members but possesses a very informal awareness developed from experience of the customers that are being dealt with*. This is not an uncommon finding in small businesses. With the credit union's involvement in the Growth Fund project, government reporting requirements mean that data had to be collected on people who benefit from Growth Fund loans. This has led to some progress in formalising the way learning and knowledge about the specific group of clients is disseminated in the organisation. The evolution of management information over time depends on the ability to maintain a high level of organisational learning and not on what individuals know. Given the fluidity of the individuals that are involved in outreach work, it is essential that learning is captured for the benefit of the organisation.

The credit union does have a Treating Customers Fairly policy which was written by the Compliance officer and signed off by the board. The policy gives some examples of how the credit union would treat customers fairly . It is interesting to note that while the policy refers to the Cooperatives Act and cooperative principles, it does not make any reference to Outcome 1 of the TCF policy which has to do with the culture of the organisation.

There is a strong and genuine belief that the products are introduced to help members. This view it seems applies primarily to loan products and transaction banking products. The savings product however, appears to have been introduced with a more business oriented motive in mind – to attract funds and widen the credit union's appeal to more affluent members rather than 'to help'.

Governance is viewed largely within the framework of the ABCUL code. The phrase 'members looking after other members' interest was used by more than one respondent. This suggests that the approach to governance is largely motivated by stewardship aims and a relationship of collaboration. Cornforth (2004) identified tensions that could occur between the board's control and collaboration roles.

While there is a genuine belief that product interactions are in the interests of members – the overlap between members and customers, can mask some of the product specific responsibilities to customers as stakeholders and give rise to governance as well as conduct and reputational risks.

Active board involvement and evaluation occurs at late stages in the process,. The role of th board mainly is to authorise expenditure as required rather than to sign off at different stages and perform a monitoring role.

Accountability and governance

There is no formal system for reporting to stakeholders on the value created through different product ranges. Central to reporting and accountability are issues relating to financial management and the PEARLS system. In 2002, the credit union's trade body, ABCUL introduced the PEARLS financial monitoring and business planning system to British credit unions as part of the drive to improve credit union governance. The PEARLS system has been central to the strengthening of credit union movements throughout the world. Through ABCUL's links with WOCCU, it was first tested in Britain as part of the West Midlands credit union development programme (Jones 2005) and then rolled out as a national pilot in the form of the PEARLS project. This project was financially supported by Barclays, as a key intervention to strengthen credit unions as financial institutions. One of the doctrines underpinning this model is open door massification which advocates that serving a wider range of economic groups leads to better outreach and social performance(Richardson 2002). It was launched in April 2002 by Howard Davies, the then Chairman of the FSA.

The credit union was one of the nine that took part in the national PEARLS pilot programme. Just before this the credit union had merged with a failing one and financial discipline and sound financial management were high on its agenda. Adoption of this as part of its governance was seen as central to the credit union's business development. With the PEARLS system, target ratios are identified for solvency, profitability, liquidity, growth, asset quality and financial structure by which a credit union's board can receive reports from management and observe and monitor key performance indicators. This monitoring tool has a profound impact of loan products. The CEO commented in a report that *"PEARLS biggest impact has been in the change the credit union has made to its lending policy. We have moved away from making loans based on savings to making loans based on risk. Prior to PEARLS, the credit union was turning down good credit risks*". (Decker and Jones 2007).

Significant reporting on product performance was undertaken for Growth Fund loans because this was required by the Department of Work and Pensions (DWP). The reporting parameters were set specified by the DWP largely to meet the DWPs own financial exclusion agenda targets. In the case of the case of the current accounts that were developed in collaboration with other credit unions, internal target were set for by the credit union. This was motivated by the significant capital outlay that the credit union had to make.

The case study indicates that stakeholders have made meaningful, tangible and visible contributions to product development in return for linking the credit union to the financial exclusion agenda. This has influenced the strategic direction of the credit union but it seems to have created a consensus position to reconcile the more powerful stakeholders' interests and the credit union's desire to grow while significantly constrained by limited financial and technical resources, low levels of public understanding, awareness and stigma. The resource dependence problem of the credit unions has underpinned the product choices they have made to date. While the financial exclusion issue is common to a number of stakeholders, the motives of mainstream banks and the government are not the same. Hence, the contributions of the banks have been piecemeal without a capacity building and sustainability element. None of the product development for which the credit union has received outside help either from government or banks, has been linked to savings type products or for the middle income groups or for wealth accumulations.

The downside is that the sustainability of the credit may be at risk because of poor product governance practices that did not allow for a consideration of overall customer outcomes including fair treatment.

Strategic interlinkages with other cooperatives are also a feature of credit union product development. This is a practical demonstration of a fundamental cooperative principle. Again, given the resource issues that credit unions face peer support is significant. Credit unions use study visits and other measures to learn from each other and share good pratice

Boards roles and responsibilities for product development may not be clear to all board members. All board members need to have a consistent and clear understanding of the board's role in offering new products – especially regulated products,

Conclusions

The British credit union movement has witnessed extensive change related to far reaching regulatory reforms, political steering and a rethink of management models and strategic direction. A significant part of this change is new product development which has brought specific challenges in product governance. Product governance is not just about compliance but about maintaining strong and sustainable financial institutions that are focused on and can balance their dual goals to benefit all members.

Stakeholders make meaningful, tangible and visible contributions to product development in return for linking the credit union to the financial exclusion agenda. This has influenced the strategic direction of the credit union as it finds a consensus position to reconcile the interests of more powerful stakeholders with the desire of senior management and the board to grow though significantly constrained by limited financial and technical resources, low levels of public understanding, awareness and stigma. The resource dependence problem of the credit unions has underpinned the product choices they have made to date. While financial exclusion issue is common to a number of stakeholders, the motives of government and other stakeholders are not the same. In cases where banks have contributed funding such as the Change project, the contributions of the banks have been piecemeal without a capacity building and sustainability element. None of the product development for which the credit union has received outside help either from government or financial institutions, has been linked to savings type products or for the middle income groups or for wealth accumulations. An important note, however, is that while a majority of members may save more than they borrow, or vice versa, the credit union must always strike a balance between policies that benefit savers and those that benefit borrowers. If policies are skewed in the direction that benefits borrowers, it may be difficult for the credit union to remain a strong institution.

The downside is that the sustainability of the credit may be at risk because of poor product governance practices that did not seem to allow for a consideration of overall customer outcomes including fair treatment. For credit union consumers to be in a strong position or a position of fairness- they need information, competition, education and moral integrity from their providers. Good intentions and the moral/ altruistic origins of credit unions do not necessarily translate into fair outcomes for consumers.

Board roles and responsibilities for product development may not be clear to all board members. All board members need to have a consistent and clear understanding of the board's role in offering new products – especially regulated products. Consultants can help boards develop the skills but need to know what their responsibilities are to benefit from this. Boards need to co-opt to acquire the skills and constructive challenge needed.

To get to grips with this aspect of their governance responsibilities a starting point should be with updating boards and senior management on roles and responsibilities for product development and governance and adopting a framework to help guide boards in executing their product governance roles while remaining accountable for social and economic goals.

One danger with rapid growth and product expansion is that it can lead to an inability to develop a coherent identity. Therefore, product development must be in line with the strategic view of the future. The downside of an ambiguous identity is that it becomes harder to maintain legitimacy and manage relationships with stakeholders.

References

Aras, G. and Crowther, D. (2008) Governance and Sustainability: An Investigation into the relationship between Corporate Governance and Corporate Sustainability, Management Decision, 433-447.

Armstrong, M. Cornut,G., Delacôte,S., Lenglet,M., Millo,Y., Muniesa,F. Pointier,A. Tadjeddine,Y. (2012) "Towards a practical approach to responsible innovation in finance: New Product Committees revisited", Journal of Financial Regulation and Compliance, Vol. 20 Iss: 2, pp.147 – 168

Asante, K., Owen, R. and Williamson, G., 2014. Governance of new product development and perceptions of responsible innovation in the financial sector: insights from an ethnographic case study. *Journal of Responsible Innovation*, *1*(1), pp.9-30.

Azgad-Tromer, S. (2015) The Case for Consumer-Oriented Corporate Governance, Accountability and Disclosure 17 University of Pennsylvania Journal of Business Law 17 (1) 228-292

Bátiz-Lazo, B. and Billings, M. (2012) 'New perspectives on not-for-profit financial institutions: organizational form, performance and governance', Business History, vol. 54, no. 3 (June), pp. 309-324.

Becchetti, L., Ciciretti, R. and Paolantonio, A., 2016. The cooperative bank difference before and after the global financial crisis. *Journal of International Money and Finance*, *69*, pp.224-246.

Birchall, J. and International Labour Office, 2013. *Resilience in a downturn: The power of financial cooperatives*. Geneva: International Labour Office.

Birchall, J. and Ketilson, L.H., 2009. *Resilience of the cooperative business model in times of crisis*. International Labour Organisation.

Bovens, M. (2007), Analysing and Assessing Accountability: A Conceptual Framework. European Law Journal, 13: 447–468

Byrne, N. and McCarthy, O., 2014. Value proposition preferences of credit union members and patronage activity. *International Journal of Bank Marketing*, *32*(6), pp.567-589.

Cámara, N. and Tuesta, D., 2014. Measuring Financial Inclusion: A Muldimensional Index. Working Paper 14/26 BBVA Research, Madrid https://www.bbvaresearch.com/wp-content/uploads/2014/09/WP14-26_Financial-Inclusion.pdf

Canham, C. (2008) Governing for Success - a Code of Governance for Credit Unions, Journal of Co-operative Studies, 41.2, 45-47.

Cornforth, C., 2004. The governance of cooperatives and mutual associations: A paradox perspective. *Annals of Public and Cooperative Economics*, *75*(1), pp.11-32.

Cornforth, C., 2014. Understanding and combating mission drift in social enterprises. *Social enterprise journal*, *10*(1), pp.3-20.

Croteau, J.T. (1963), *The Economics of the Credit Union,* Wayne State University Press: Detroit

Cuevas, C.E. and Fischer, K.P., 2006. *Cooperative financial institutions: Issues in governance, regulation, and supervision* (No. 82). World Bank Publications.

Decker, O.S. and Jones, P.A., 2007. The development of Southwark Credit Union 1982-2007.

Decker, O.S., 2010. Exploring the corporate social responsibility agenda of British credit unions: a case study approach. *International Journal of Banking, Accounting and Finance*, *2*(3), pp.275-294.

Dobcheva, Z (2015) Credit Unions in the UK –balancing social benefit with economic viability, Briefing paper BP 9/2015 Centre on Household Assets and Savings Management http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/briefing-papers/2015/bp9-2015-credit-unions-uk(2).pdf

Donnelly, R.D. and Kahn, H., 1999. Conditions favourable to Credit Union development–A Case Study. *School of Management, Heriot-Watt University, Edinburgh*.

Ebrahim,A. Battilana,J., Mair, J. (2014)The governance of social enterprises: Mission drift and accountability challenges in hybrid organizations, Research in Organizational Behaviour , *34*, pp.81-100.

Fonteyne, M.W., 2007. *Cooperative banks in Europe: policy issues* (No. 7-159). International Monetary Fund.

Fonteyne, W. and Hardy, D.C., 2011. Cooperative banking and ethics: past, present and future. *Ethical perspectives-Katholieke Universiteit Leuven*, *18*(4), pp.491-514.

Forker, J., Grosvold, J. and Ward, A.M., 2013. Management Models and Priorities in Member Associations: Is Credit Unions' Community Involvement Crowded-Out?. *Nonprofit and Voluntary Sector Quarterly*, p.0899764013502581.

Freeman, R.E. and Reed, D.L., 1983. Stockholders and stakeholders: A new perspective on corporate governance. *California management review*, *25*(3), pp.88-106.

FSA (2013) The Responsibilities of Providers and Distributors for the Fair Treatment of Customers: https://www.handbook.fca.org.uk/handbook/document/RPPD_FCA_20130401.pdf

FSA(2012) Retail Product Development and Guidance: Structured Product Review, Financial Services Authority, May . http://fsahandbook.info/FSA/html/handbook/RPPD

Glass, J.C., McKillop, D.G. and Rasaratnam, S., 2010. Irish credit unions: investigating performance determinants and the opportunity cost of regulatory compliance. *Journal of Banking & Finance*, *34*(1), pp.67-76.

Goddard, J., McKillop, D. and Wilson, J.O., 2008. The diversification and financial performance of US credit unions. *Journal of Banking & Finance*, *32*(9), pp.1836-1849.

Goth, P., McKillop, D. and Wilson, J., 2012. Corporate governance in Canadian and US credit unions. *Madison, WI: Filene Research Institute*.

Griffiths, G. and Howells, G. (1990) 'Britain's best kept secret? An analysis of the credit union as an alternative source of credit', *Journal of Consumer Policy*, Vol. 13, pp.447–476.

Groeneveld, H., 2012. The cooperative banking model: performance and opportunities. *New paradigms in banking, financial markets and regulation?*, p.101.

Groeneveld, H., 2015. Governance of European Cooperative Banks: Overview, Issues and Recommendations. *International Co-operative Alliance (2015): Co-operative Governance Fit to Build Resilience in the Face of Complexity*, pp.79-94.

HM Treasury (1999a) *Access to Financial Services – Report of Policy Action Team 14*. London: HM Treasury.

HM Treasury (1999b) *Credit Unions of the Future: Credit Union Taskforce Report*, HM Treasury, London

HM Treasury (2004) *Promoting Financial Inclusion*, HM Treasury, London.

HM Treasury (2007a) *Financial Inclusion: The Way Forward*, HM Treasury, London.

HM Treasury (2007b) *Financial Inclusion: An Action Plan for 2008–11*, HM Treasury, London

HM Treasury (2014) British Credit Unions at 50 – response to the call for evidence available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/389657/credit_unions_response_to_call_for_evidence.pdf

Hyndman, N, McKillop, D.G., Ferguson , C. and Oyelere, P., (2002)Credit unions in the UK: a study of their structure, growth and accountability, Association of Chartered Certified Accountants' Research Report (No. 75), Certified Accountants Educational Trust, London , April 169 pp.

Jones, P.A. (1999) *Towards Sustainable Credit Union Development*, ABCUL, Manchester.

Jones, P.A. (2008) *Breaking through to the future: The Strategic Development of Credit Unions in Britain, 1998–2008*, Liverpool John Moores University.

Kempson, E. and Whyley, C. (1999) *Kept out or Opted out?: Understanding and Combating Financial Exclusion*, Joseph Rowntree Foundation, The Polity Press, Cambridge.

Klettner, A., Clarke, T. and Boersma, M., 2014. The governance of corporate sustainability: Empirical insights into the development, leadership and implementation of responsible business strategy. *Journal of Business Ethics*, *122*(1), pp.145-165.

Kocas, A. (2015) Understanding the Financial Conduct Authority, a guide for Senior managers , Matador

Labie, M. and Périlleux, A., 2008. Corporate governance in microfinance: credit unions. *Solvay Business School*, 08-003.

Llewellyn, D. (1999) The Economic Rationale for Financial Regulation, FSA Occasional Paper 1, Financial Services Authority

Llewellyn, D. (2007) Corporate Governance Issues in non-shareholder value institutions: a case of Mutual Building Societies in the UK in Corporate Governance in Financial Institutions, SUERF studies 3, pgs 53-87.

McKillop, D. and Wilson, J.O., 2011. Credit unions: A theoretical and empirical overview. *Financial Markets, Institutions & Instruments*, *20*(3), pp.79-123.

Muniesa , F. and Lenglet,M (2013) Responsible Innovation in Finance: Direction and Implications in (Eds) Richard Owen, John Bessant, Maggy Henitz, Responsible Innovation: *Managing the responsible emergence of science and innovation in society* John Wiley.

Richardson, D.C. 2002 PEARLS Monitoring System, World Council of Credit Unions, Toolkit Series, 4 pp. 1-32.

Ring, P.J., Bryce, C., McKinney, R. and Webb, R., 2016. Taking notice of risk culture–the regulator's approach. *Journal of Risk Research*, *19*(3), pp.364-387.

Sachs, S., & Ruhli, E. 2011. *Stakeholders matter: A new paradigm for strategy in society, Cambridge University Press .*

Sethi, S.P. (2002), "Standards for corporate conduct in the international arena: challenges and opportunities for multinational corporations", Business and Society Review, Vol. 107 No. 1,pp. 20-40.

Sinclair, S., 2014. Credit union modernisation and the limits of voluntarism. *Policy & Politics*, *42*(3), pp.403-419.

Spear, R., Cornforth, C. and Aiken, M., 2009. The governance challenges of social enterprises: evidence from a UK empirical study. *Annals of public and cooperative economics*, *80*(2), pp.247-273.

Sun, W. Stewart, J and Pollard D. 2010 . "Reframing corporate social responsibility." In *Reframing corporate social responsibility: Lessons from the global financial crisis*, pp. 3-19. Emerald Group Publishing Limited

Yin, R.K. (1994) Case Study Research 2nd edition Sage London