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# MONITORING, SUPERVISION AND THE USE OF ACCOUNTING RATIOS: A STUDY WITHIN THE IRISH CREDIT UNION MOVEMENT

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### *ABSTRACT*

*Credit unions are member-owned, voluntary, self-help, democratic, not-for-profit institutions that provide financial services to their members. They have both economic and social goals. Over this last two decades they have achieved remarkable growth levels and currently there are over 600 such organisations in Ireland, with approximately half of the population of Ireland belonging to a credit union. However, identified weaknesses in both accountability and management control have the potential to reduce confidence in the sector and undermine its growth. To counter this, a number of changes in the monitoring and supervision of the sector in Ireland, including an increasing use of accounting ratio information, have been implemented since 2003. This paper explores these changes and, through a series of interviews with key stakeholders (regulators, trade associations and credit union representatives), examines the impact of one accounting ratio scheme (the PEARLS system) both on monitoring and supervision and on decision making in the credit union sector. Overall, the research points to a sector where the expectations by regulators relating to accounting ratios have been unfulfilled and the use of such ratios by individual credit unions has been limited. In addition, it points to a sector where the roles of the "key actors" concerned with monitoring and supervision are somewhat in dispute. The research also suggests that if better decision making within credit unions is to be achieved through the provision of accounting ratio information, then education and support of individual credit unions is required.*

## INTRODUCTION

In Ireland, including both the Republic of Ireland (RoI) and Northern Ireland (NI), there are currently over 600 credit unions with a membership of almost three million, out of a total population of about five and a half million (McKillop, Goth and Hyndman, 2006)[1]. The vast majority of these credit unions are affiliated to one of three main trade associations: the Irish League of Credit Unions (ILCU), formed in 1960, by far the largest in terms of members and operating in both the RoI and NI; the Ulster Federation of Credit Unions (UFCU), formed in 1995 from within the Protestant community in NI and comprising small credit unions; and the Credit Union Development Association (CUDA), established in 2003 by large, former

ILCU members in the RoI. Credit unions are not-for-profit, cooperative, member-owned, voluntary, self-help, democratic institutions that provide financial services to their members. As member-owned, not-for-profit organisations they are value driven. Traditionally they have been seen as serving the financial services needs of disadvantaged communities and individuals. As the movement has developed, particularly in countries such as the US, Canada, Australia and Ireland, credit unions have increasingly appealed to the professional classes and compete with other retail financial institutions for this client base.

A critical element in the successful development and good functioning of a credit union movement is that it has in place appropriate regulatory and supervisory infrastructures. The regulatory infrastructure contextualises the modus operandi of credit unions, while the supervisory framework ensures the financial soundness and rectitude of individual credit unions and in so doing safeguards the movement as a whole. Some of the elements involved in the supervision and monitoring process may be mandatory in that they are enshrined within the regulatory framework, while others may be dictated by the model rules of the trade association to which the credit union is affiliated.

The objective of the paper is to explore the changes in monitoring and supervision of credit unions in Ireland at a time of particular transformation in the movement and, through a series of interviews with key stakeholders (regulators, trade associations and credit union representatives), examine the impact of one accounting ratio scheme (the PEARLS system) both on monitoring and supervision and on decision making in the credit union sector. In terms of the format of the paper the following structure is used. The next section outlines the credit union movement in Ireland and describes recent changes (and potential changes) in monitoring and supervision. This is followed by an examination of two theoretical paradigms which have a resonance for the change process currently impacting on Irish credit unions, new institutional sociology (with a focus on mimicking modern ideas) and rational accounting (using accounting ratios for attention directing). Subsequently, an outline of the method used in the interviews is provided, followed by the reporting and discussion of the results, and, finally, concluding comments.

## THE IRISH MOVEMENT, RECENT CHANGES IN MONITORING AND SUPERVISION AND PEARLS

The Irish Agricultural Organisation Society (IAOS), now called the Irish Cooperative Organisation Society, was established as an umbrella organisation in 1894 under the presidency of Horace Plunkett. King and Kennedy (1994) argue that Plunkett, encouraged by the success of cooperative creameries in the dairy industry, proposed to apply "combination" to every branch of the farmer's business. All that was needed to achieve this was "effective propaganda" and this in turn was a question of money and influential backing. In essence, the role of the IAOS was to send paid organisers to organise cooperative societies throughout Ireland and generally to instruct the farming community about what can be done by cooperation. The first Irish credit cooperative was founded in Doneraile, County Cork in 1895, with the rationale behind such societies being the provision of capital to increase the productivity of farms at a time when land was being transferred from landlord to tenant (Kavanagh, 2005). Although these organisations initially flourished, due to a variety of reasons, including lack of proper controls, limited sanctions regarding default and inadequate support from prosperous farmers (Guinnane, 1994; McKillop et al., 2006), they ultimately declined in popularity. However, they can be viewed as the forerunner of today's Irish credit union movement.

*Credit union development in the Republic of Ireland (RoI)*

During the 1950s, conditions favourable to the development of credit unions existed in the RoI. Unemployment and emigration were at high levels, and there had been a significant growth in moneylenders who charged high rates of interest and exploited the need for credit among the population. Driven by the idealism of early pioneers (such as Nora Herlihy, Seamus MacEoin and Sean Forde), together with much practical assistance from the Credit Union National Association (CUNA), the American credit union trade association, and support from the Catholic Church and Saint Vincent de Paul, credit unions were successfully established. The first credit unions were formed at Donore Avenue, Dublin and Dun Laoghaire in 1958, and a year later there were three credit unions with a total of 200 members and the equivalent of €530 in savings.

In 1960, the Credit Union League of Ireland, later evolving into the ILCU, was established to foster the growth of credit unions, and the League later became a member of CUNA. By advice and direction, the ILCU, a trade association for credit unions, seeks to contribute to developing higher standards of credit union management, operation and supervision. The majority of credit unions in the RoI, and many in NI, belong to the ILCU, although a number of larger credit unions in the RoI opted to leave the ILCU and established their own trade association, CUDA, in 2003.

By 1962, there were 18 credit unions in the RoI, and this figure grew exponentially during the 1960s, supported and encouraged by the enactment of a comprehensive credit union legislative framework in the form of the 1966 Credit Union Act. Substantial growth in credit union numbers, members and savings continued through the 1970s and 1980s. For example, in 1984 there were 389 credit unions in the RoI, with 527,000 members and €293 million in savings. From the late 1980s onwards, there has been a levelling off in the establishment of new credit unions, although strong growth in both savings and membership has continued. During the 1990s, there were, on average, four new credit unions formed per annum, although few were newly established after 1999. By the end of 2004 there were 424 credit unions registered in the RoI, with savings of approximately €9,336 million and a total membership of 2.57 million.

The 1966 Credit Union Act provided for the statutory recognition of cooperative concepts, including the mutuality of members in the ownership and organisation of their societies. Under this Act, the Registrar of Friendly Societies (subsequently located within the Department of Enterprise, Trade and Employment) was designated as the regulatory authority for credit unions. The Credit Union Act, 1997, repealed the 1966 Act. The emphasis in the new Act was to create a more permissive environment for credit unions and this manifested itself in a relaxation of common bond definitions, an increase in the term and amount of shareholdings and loans, with credit unions also permitted to provide, as either a principal or agent, additional services of a type considered by the Registrar to be of mutual benefit to the credit union's members. Furthermore, in June 2004 the Credit Union Act, 1997 (Exemption from Additional Services Requirements) Regulations 2004 came into force. This is an enabling piece of legislation which allows credit unions to provide certain services without having to meet the prerequisites laid down in Section 48 of the 1997 Act. In May 2003, the Irish Financial Services Regulatory Authority (IFSRA) was established as the sole regulatory authority for all financial service providers in the RoI. The statutory position of Registrar of Credit Unions was located within the framework of IFSRA in December 2003, and is tasked with carrying out functions under the Credit Union Act, 1997, the Friendly Societies Acts, 1896 to 1977, the Trade Union Acts, 1871 to 1990, and the Industrial and Provident Acts, 1893 to 1978.

*Credit union development in Northern Ireland (NI)*

Quinn (1999) argues that there was a cooperative tradition, albeit on a limited scale, in NI since the nineteenth century. He states that, following the visit to Dublin in 1823 of Robert Owen, the British cooperative pioneer, the Belfast Cooperative Trading Association was founded in 1830. Unfortunately this initiative, which focused on both factories and farms, failed to gain significant momentum. It was not until 1960 that credit unions first emerged in NI, two years after they appeared in the RoI. The first credit union in NI, Derry Credit Union, was formed in October, 1960 (Quinn). By the end of its first full year of operation, it had 400 members. Today, it is the largest credit union in NI.

As in other countries, the NI movement was dependent on a small number of influential individuals to provide the impetus for development. In NI, the main driving force came from John Hume. The work of Hume and other volunteers led to the number of NI credit unions increasing to 23 by 1965 and 64 by 1970. The credit union movement in NI continued to grow steadily in the 1970s and 1980s. In 1980, there were 96 credit unions registered with a membership of 101,303. New credit union formations slowed considerably during the 1980s, although membership increased at a steady pace. In 1985, members had increased to 118,716, but only two new credit unions had been formed between 1980 and 1985. These credit unions were almost entirely located within the Catholic community.

The success of the movement in Ireland did not, however, go unnoticed by the Protestant community in NI. The downturn during the 1980s in shipbuilding, aircraft manufacturing and heavy engineering had given rise to significant hardships in many Protestant areas. Following representations, the Newcastle-upon-Tyne (formerly Bradford) based National Federation of Credit Unions (NFCU) set up a regional office in NI in 1985. In June 1985, the Balmoral Credit Union was formed in Belfast; two years later, a further ten credit unions had been formed, and by 1993 there were 44 NI credit unions, all affiliated to the NFCU. Key pioneers in generating interest within the Protestant community were individuals such as Gladys Copeland and Stuart McCrea, a key player in encouraging the NFCU to extend its operation into NI, and also in the formation of the Balmoral Credit Union. It should be noted that in 1995, as a consequence of an internal dispute, the NI credit union affiliates of the NFCU broke away to re-establish under the banner of the Ulster Federation of Credit Unions (UFCU). At its peak there were 82 credit unions affiliated to the UFCU. By 2004, this number has declined to 69, as some opted to leave the UFCU because they did not wish to be part of a savings protection scheme which the UFCU established in 2003[2].

Between 1985 and 1994, credit union numbers in NI increased from 98 to 152, with most of the new credit unions affiliated to the NFCU. By the end of 2004, there were 183 credit unions in NI, with a membership of 397,539 and share capital of £963 million (€1,406 million). Of these, 104 were affiliated to the ILCU, 69 to the UFCU, with the balance being independent or affiliated to the Antigonish model of Nova Scotia.

When the Derry Credit Union was established, it was an unincorporated association having no legal status. The growing importance of credit unions in NI, combined with lobbying of the NI Government by the ILCU among others, resulted in the introduction of the Industrial and Provident Societies (NI) Act, 1969. The Act came into operation on 1 January 1971. This Act amended the Industrial and Provident Societies Act, 1893, and added provisions that were specifically tailored to credit unions. More specifically, Part III was introduced; this provided for the registration of credit unions as a special category of society under the Act, and for the subsequent regulation of their activities by the Registrar of Friendly Societies. In Great Britain, an act specifically legislating for credit unions in their own right was introduced in 1979. The 1979 Act provided the impetus for change in legislation in NI and resulted in the introduction of the Credit Union (NI) Order, 1985 (S.I. 1985/1205, NI 12). This Order recognises credit unions as a special class of mutual society; in essence, self-help, not-for-profit cooperatives. The next significant revision to the legal regulations was introduced through the Credit Union (Loans and Deposits) Order (NI), 1993, which amended some of the original provisions of the 1985 Order with regard to maximum shareholding limits and maximum borrowing limits. To promote further and facilitate credit union growth, the Credit Union Deregulation (NI) Order, 1997 (S.I. 1997/2984, NI 22), came into force in February 1998. The Order removed or reduced some of the burdens of the 1985 Order.

Proposals for the modernisation of NI policy on credit unions were published at the end of 2004 by the Department of Enterprise, Trade and Investment for Northern Ireland (DETI (NI), 2004). These suggest a future movement towards encouraging credit unions to expand their range of service provision, to increase their scale of operations and to tighten their protection and control facilities. Proposals include: removing the membership cap and widening the common bond; increasing the term and size of both savings and loan accounts; requiring credit unions to be part of a savings protection scheme; increasing the services which can be provided by credit unions; the introduction of measures to improve governance, accountability and reporting by credit unions; and broadening the powers available to the Registrar of Friendly Societies in Belfast. In essence, many of these changes, some of which were enacted in 2006, mirror recent changes in Great Britain as well as the changes implemented in the RoI under the 1997 Credit Union Act.

*Trade associations and supervision*

The ILCU

Prior to June 2005, as part of the ILCU's savings protection scheme, each ILCU affiliated credit union sent a quarterly call report to the ILCU. This is now superseded by the quarterly prudential report which is passed on by IFSRA to the ILCU for its affiliates in the RoI, and which is sent directly to the ILCU by member credit unions in NI. The ILCU also has a team of inspectors who, as a matter of course, are likely to visit member credit unions every 18 months. The visit tends to last two to three days and may be viewed as a general audit of the credit union's activities. It should be noted that if the quarterly report flags up areas of concern, the ILCU will bring forward its inspection of the credit union in question. The ILCU also provides formal training for credit union officers and issues guidance notes to credit unions which deal with specific points which directors and supervisors are asked to consider.

The ILCU began using PEARLS as a supervisory tool in June 2003, as a replacement for the CAMEL(S) system[3]. PEARLS is a monitoring system for credit unions which was developed by the World Council of Credit Unions (WOCCU) consisting of 44 (almost exclusively financial) ratios within six categories (although the ILCU used only 42 of these ratios). Each letter of the PEARLS acronym stands for a key area of credit union operations (**P**rotection, **E**ffective financial structure, **A**sset quality, **R**ates of return and cost, **L**iquidity, **S**igns of growth). WOCCU list four main objectives of the PEARLS system: to provide an executive management tool (considered the most important use of the system); to standardise evaluation ratios and formulas; to produce objective, comparative rankings of credit unions; and to facilitate supervisory control. The ratios and targets initially used by the ILCU were broadly similar to those detailed by WOCCU. However, in 2005 the ILCU removed some of the duplicate and less useful ratios, reducing the overall number from 42 to 27. ILCU members get a quarterly report with details of their own PEARLS ratios, with comparative figures for the movement and for fellow credit unions in either NI or the RoI. Initially, the quarterly reports received by member credit unions were one quarter behind; this has been rectified since mid 2005[4].

The CUDA

Unlike the ILCU, CUDA does not see its role as one of monitoring member credit unions. In contrast, CUDA wants a greater emphasis on monitoring and supervision by IFSRA, as well as a more robust and standardised reporting by individual credit union auditors. CUDA argues that the self-regulatory monitoring function carried out by the ILCU is no longer appropriate given the scale of the Irish credit union movement as well as the fact that self-regulation gives rise to a clear conflict of interest.

The UFCU

In 2003, the UFCU decided to establish its own savings protection scheme and created a separate company for that purpose, although the directors of the share protection company are also directors of the UFCU. A part-time worker is employed to administer the scheme. One aspect of that person's role is the inspection of credit unions which are part of the scheme, with the objective of ensuring that the credit union is not being mismanaged or malmanaged. The administrator reports back to the board of the savings protection company which has the power, if necessary, to instruct the member credit union to alter the manner in which it is operated. Indeed, if required, the savings protection company has the power to put in place a management team in a mismanaged or malmanaged member credit union. This monitoring and enforcement role of the savings protection company is viewed as extremely important, because the UFCU is itself a voluntary representative body with no power to interfere in the day-to-day running of member credit unions.

## THEORETICAL PERSPECTIVES

*New institutional sociology*

In some studies of reforms in organisations, a number of researchers, influenced by new institutional sociology, posit that the desire to modernise is often characterised by particular ideas of what constitutes improvement and by particular patterns of behaviour. As a consequence of this, some organisations may mimic other organisations, or some sectors may mimic other sectors, possibly regardless of the efficiency of the technique being mimicked, in order to appear modern (something that may be promoted by regulatory authorities). This is described as isomorphism by institutional theorists (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott and Meyer, 1994).

The adoption of ratio frameworks such as PEARLS could be viewed, to some extent, through the lens of new institutional sociology, as indeed could a modernisation of credit union policy, or a shift in regulatory emphasis for credit unions in the RoI. In order to be perceived as legitimate and modern, organisations adapt their formal structures to conform to institutional norms. Differing types of institutional pressures are exerted; these are described by DiMaggio and Powell (1983) as either coercive, mimetic or normative. In the context of credit unions, it might be expected that coercive forces (whereby influence is exerted from the centre) would be strongest where individual credit unions are mandated to operate in certain ways (described by DiMaggio and Powell as coercive isomorphism). Perhaps the adoption of PEARLS is viewed as a way of appearing modern and/or legitimising the role that they fulfil (particularly given the recent experience of Irish credit unions in the context of bad debts: see, for example, McBride (2005) and

Barrington (2006)). In the context of changes in the public sector, Parry (2003) has argued that new governments 'self-evidently want to be modern, best-practice governments, not a tired echo of what went before' (p. 1).

The legitimising and isomorphic processes, including accounting and reporting, become taken for granted (and institutionalised) by organisations as they attempt to satisfy the demands of external regulators, resource suppliers and professional groups. Meyer (1994, p. 122) argued that accounting arises 'in response to the demands made by powerful elements in the environment on which organisations are dependent'. Similar claims could possibly be made with respect to the environment within which credit unions operate.

*Rational accounting*

In much of the extant traditional accounting literature (American Accounting Association, 1966; Accounting Standards Committee, 1975), accounting is typically conceptualised as a tool intended to furnish rational decision makers with appropriate information. Accounting and accounting ratios are treated as a neutral technology, and, hence, in the hands of rational decision makers (either within or outside of the organisation) are deployed to generate and draw attention to information that guides decision makers in making informed decisions. Such a traditional view of accounting is premised on a more general view of the organisation, as one with well-defined, clearly-ordered goals and objectives that are relentlessly pursued by senior managers or decision makers. It is assumed that the preferences of decision makers map (or can be made to map) perfectly onto organisational preferences, and that these preferences provide the basis upon which accounting systems are designed and developed. Accounting techniques have an aura of logic, objectivity and accuracy, and this aura holds particularly strongly among those who are not technically equipped to deconstruct accounting numbers (Knights and Collinson, 1987; Ezzamel, 1994).

The increased use of accounting information and related ratios, and the adoption of accounting practices which are perceived as "private sector", can be viewed as one part of the wider modernisation agenda that has had a major impact on various aspects of the not-for-profit sector. For example, in the public sector the rising prominence of the New Public Management (NPM)[5] movement has increased the emphasis on quantification, specifically in the context of a highly rational model of management behaviour (which is in part facilitated by objective, neutral accounting information that allows crisp, rational decision making). However, many writers have been very sceptical about the efficacy of NPM methods in general, and accounting techniques in particular, in delivering more appropriate, more accountable and better management within the public sector (see, for example, Guthrie, Olson and Humphrey, 1999).

In the political arena it has been found that many political decision makers inadequately identify with the language of finance and accounting and, therefore, even if it were accepted that accounting information could provide the foundation for rationality, the basis for rational decision making is missing because of a lack of comprehension (Pallot, 1998; Guthrie et al., 1999; Ezzamel, Hyndman, Johnsen, Lapsley and Pallot, 2005). To an extent, and in the context of credit unions, both the development of appropriate accounting information systems and related ratio systems to support credit union managers and boards of directors within the organisation, and regulators and trade associations outside of the organisation, and the level of understanding of such information by internal decision makers, regulators and trade associations, may be a function of the maturity of the credit union movement and the regulatory environment.

## VIEWS OF KEY STAKEHOLDERS ON SUPERVISION, MONITORING AND PEARLS

This empirical aspect of the current study examines perceptions of the effectiveness of the supervisory and monitoring of credit unions in NI and the RoI, with a particular focus on the role played by the PEARLS financial ratio framework. In addition, it investigates the potential contribution of such a system in the context of supporting internal management practices within credit unions (one of the objectives of the PEARLS system).

### *Methodology*

Through a series of semi-structured interviews, the views of key actors (regulators, trade associations and representatives of individual credit unions) were explored. The rationale for collecting qualitative data by informal semi-structured interview is based on the interactionist's premise that when the aim of the research is to understand a complex process where those involved have different perspectives on the matter in question, it makes sense to adopt a research strategy which allows these perspectives to be understood in the same terms in which the participants understand them (Blumer, 1969).

The two Registrars of Credit Unions in NI and the RoI (the regulators) and senior individuals within the relevant trade associations (CUDA, ILCU and UFCU) were selected for interview because they represented key stakeholders in the regulation and support framework of the credit union movement in Ireland. Senior representatives of credit unions, for example, chairmen or managers, were also identified as key stakeholders and interviewed. These individuals were chosen because of their responsibilities and influence both in matters relating to the effective and efficient management of credit unions and in the supply of information to the regulator/trade association as a basis for monitoring. The results of 17 interviews are reported in this paper, two with the regulators, three with the trade associations and 12 with credit unions (often managers and/or chairmen of the board of directors). These individuals were interviewed between February 2005 and April 2005. Over the interview period, IFSRA's quarterly prudential report had not as yet been introduced, although its introduction had been heralded, and the ILCU was still using 42 PEARLS ratios.

Questions were asked relating to: the participant's view of supervision and monitoring (question 1); the use of PEARLS ratios by the ILCU (question 2); the use of such information by the ILCU credit unions (question 3); and the drawbacks and costs of such financial ratio schemes (question 4). The results below are presented in this order. Wherever possible, interviews are reported in such a way as to prevent specific statements from being attributed to particular individuals. We do, however, distinguish between the Registrar in NI and the RoI, the three trade associations, the trade association to which the respondent credit union is affiliated and whether that credit union is based in NI or the RoI. This enables possible nuances to be analysed, if appropriate.

*Question 1: The meaning of monitoring and supervision*

The overarching theme of the empirical research is related to the supervision and monitoring of the credit union movement in Ireland; therefore the perceptions of respondents regarding the meaning of supervision and monitoring were explored. The question was asked as a lead-in to the more specific questions on PEARLS. To ease the presentation of our findings with respect to this question, we will initially consider the views of the two regulators and the three trade bodies before detailing the views of individual credit union representatives.

*Regulators and trade associations*

The most arresting impressions from the interviews, be they with trade association representatives or the regulators, were that monitoring and supervision were critical to the continuing success of the movement, and what had gone before was now inadequate. In terms of the purpose of monitoring and supervision, while it was expressed in different ways by participants, with a few focusing on process before principle, it was clearly identified that the key purpose was to protect the movement through protecting the savings (and ensuring the confidence) of savers. For example:

> Basically, we see our role as [being] very simple. We're trying to ensure that every pound a member saves in the credit union will be there for them when they choose to withdraw it from the credit union. Everything that we do, hopefully, is designed to ensure that that happens. (REGISTRAR NI)

> The fundamental, formal objective is to ensure that provisions of the Credit Union Act are observed. This process is enforced by means of inspections, and also enforced by reaction to particular situations that are brought to our attention as well... In a way we have a general remit to see that the movement operates in a safe and sound manner, and we protect the savings of people. (REGISTRAR IFSRA)

However, the applicability of previous regimes of monitoring and supervision to the present climate, particularly given an environment which requires greater accountability, were questioned by a number of the participants. The IFSRA participant outlined a programme for identifying important issues that would need addressing in the near future by the movement. In addition, he highlighted the need to modernise as a foundation for improving confidence:

> We'd like to end up with a web-based reporting system, which would supersede the somewhat old fashioned approach of having a file, a public file for inspection... You're aware of the "ISIS crisis"[6] as it was called? That left a hell of a lack of

> confidence in the credit union movement and its ability to get into the modern world in terms of the nationwide system. (REGISTRAR IFSRA)

All regulators and trade association participants expressed views accepting the movement to greater supervision and monitoring as inevitable and, in some cases, desirable. In commenting on the possibility of overlapping monitoring systems, an ILCU participant expressed his perception of the views of those within the Registrar's Office:

> As far as they're [individuals within the Registrar's Office] concerned there can't be too much regulation. (ILCU)

Another trade association participant, expressing similar views, articulated the possibility and desirability of a layered type of supervision and monitoring process emerging, with the trade associations linking closely with their members and the regulator overseeing, or feeding off, the work of the trade association:

> We're not trying to supplant the role of the Registrar, but we are trying to supplement it. We'll go in and do a number of inspections and give our reports and records to the Registrar, which may negate the need for them to do them. They can then supervise our supervision. (UFCU)

However, views relating to who had primary responsibility, or indeed who had any responsibility, for providing and developing the supervision and monitoring regime of credit unions were mixed. Echoes of "turf wars", and infighting among trade associations, were apparent. For example:

> What's the appropriate role of a representative body, and does that include a monitoring or a regulatory role, or a quasi-self-regulatory role, is an issue I'll touch on. Our view strictly would be that it's inappropriate for a representative body to discharge also a quasi-regulatory or a self-regulatory or a monitoring role. (CUDA)

> As we introduce this new return [the prudential report], it will supersede theirs [the ILCU's return]. We'll simply share the information with them, in the case of League membership. (REGISTRAR IFSRA)

> We got a little bit upset because they [REGISTRAR NI] had just embarked on a whole series of inspections round the credit unions, and we said to them, "Look, we've just employed this inspector for us whose job it is to inspect the credit unions. Credit unions are not going to take too kindly to you doing an inspection, then us coming in the background and doing another inspection." (UFCU)

> We have an informal agreement, a reciprocal arrangement, where if we go out and find one of their credit unions in difficulty, we would alert the Irish League to it and we would expect the same level of service from the Irish League. I think the Irish League are inclined to go out and fix the problem and tell you about it afterwards. (REGISTRAR NI)

Notwithstanding the above comments, it was clear from the interviews that the resources available to the regulators were very different in each jurisdiction. For example, while IFSRA had 20 employees dealing specifically with RoI credit unions, the NI Registrar had only four individuals, who also had supervisory responsibilities relating to companies and provident societies, covering credit unions in NI. This was commented on as follows:

> We're actually very small in the North, compared to the other regulators in Great Britain and the Republic [RoI]... it is a problem for us, and realistically I can't see any more resources being devoted to credit unions at the moment. (REGISTRAR NI)

Similar differences in the field officer and desk audit resources with respect to the ILCU and the UFCU were apparent. The UFCU (which operates solely in NI in conjunction with its own affiliates) has only one part-time, recently appointed employee in contrast to the ILCU (which operates in conjunction with its affiliates in NI and the RoI) with its suitably staffed and well established team. CUDA, whose members tend to be very large, well established RoI credit unions, does not provide such a facility to its affiliates, believing supervision and monitoring should be the sole responsibility of the regulator.

Credit Union Representatives

The importance of good monitoring and supervision was stressed by all credit union participants, most frequently commented on in terms of a duty to members. The following is fairly representative of the views expressed:

> It's a big responsibility; it's a big responsibility because you have members' money coming in. (ILCU member RoI)

However, while most participants articulated views that the process was thorough, one CUDA member, as well as expressing a similar emphasis in terms of the overall objective of monitoring and supervision in relation to members' interests, perceived that the process could be considerably better:

> There should be monitoring in place that ensures that members' assets are... in a safe environment. I feel that over the past number of years, significant past number of years, that there hasn't been due diligence on everyone's behalf. (CUDA member RoI)

A common view among credit union participants was that credit unions took comfort from the fact that knowledgeable outsiders were looking at what was going on. In addition, several participants stated that more overseeing of individual credit unions would be a positive thing. In remarking on the roles of the regulator and the ILCU, the credit union participant of one NI credit union commented:

> They check just about everything. They always seem to find a wee error in something. They do an audit. Both of them do the exact same. In some years you can be audited three times. But they do mostly the same thing... they should be able to pick up things from that... Something's being done; credit unions have to be monitored. (ILCU member NI)

In commenting on the degree of monitoring and inspection, another credit union participant opined:

> We would have a fairly secure system here, but still there isn't enough inspection of it. There aren't enough questions asked of it. (CUDA member RoI)

Commenting specifically on the role of the ILCU field officers in the process, one participant highlighted their important function in providing cover for what were perceived to be rather limited internal supervision and monitoring and external audit processes. Weaknesses were expressed as follows:

> One of the areas that would be very weak would be the supervision area. We've three supervisors here, and they're committed. They meet every month and they look at specific items… and often it's about a signature being missing from a form or a box not being ticked… that's a system that certainly needs to be overhauled… Our annual audit… Our auditor, when I came here, he came in for three days to a week here. He looked at the figures, he did a trial balance, he did some testing and he produced an annual report. He didn't attend the annual general meeting. (ILCU member RoI)

The same participant highlighted the critical role of the ILCU field officers:

> They certainly tend to look at items much more close up than the auditor does. They would be looking at board performance… They'd be looking at the performance of everybody, and then they'd be looking at the figures. The field officer sits down and meets the board… and makes their recommendations on whatever - very useful. (ILCU member RoI)

As in the interviews with trade associations and the regulators, individual credit union respondents provided indications of the existence of "turf wars", particularly in the RoI where the role of IFSRA was evolving and tensions between the ILCU and CUDA were apparent. One ILCU member, in commenting on the function of the ILCU and the changing role of IFSRA, stated:

> Obviously they're [the ILCU] trying to be the supervisors, I suppose, of the movement, and I'm not so sure that that will continue. My own view would be that the regulator [IFSRA] will become more and more seen as being the supervisor, and while we get field visits from the League, we will begin, I'd say shortly, to get field visits from the regulator's office… I would imagine that the ILCU's monitoring division will become more of an internal audit, which is probably what it is anyway, for credit unions, and the Registrar will do his own thing. (ILCU member RoI)

Two CUDA participants clearly articulated views that it was up to IFSRA (and not the ILCU) to monitor and supervise the movement in the RoI:

> We're still all governed by IFSRA, which is the Registrar. They are the people. Not the ILCU or not CUDA. The people who we are governed by really and that have any rights is IFSRA. (CUDA member RoI)

> I think that's one of the things we in CUDA and individuals in CUDA are pushing, trying to push IFSRA down that line. "Basically, the responsibility for you is to ensure that we're prudent and we're well monitored and things like that." We've been tiptoeing around for a long period of time. (CUDA member RoI)

*Question 2: The use of PEARLS by the ILCU*

As with responses to the previous question, the views of the two regulators, senior individuals in the trade associations (CUDA, ILCU and UFCU) and managers/chairmen of individual credit unions are presented. As PEARLS is an ILCU initiative, used solely by ILCU members, views relating to it, and detailed understanding of it, among the broad body of stakeholders were likely to be varied. Because of this, results relating to this question (and questions 3 and 4) are reported in the order 'ILCU', 'ILCU members' and then 'Others'. Question 2 enquired as to how the PEARLS system was used in practice by the ILCU. This question relates to the user-needs view of accounting ratio information and the idea that a supervising body (or indeed managers within a credit union) can understand and use the information provided by the system to provide support in ensuring that the sector (or indeed the organisation) operates both effectively and efficiently (aspects of viewing accounting ratio information as a foundation for rational managers to make sound decisions) and remains solvent.

From interviews with the ILCU, it became clear that from an ILCU viewpoint, the supervisory aspect of PEARLS was critical, particularly in relation to safeguarding the ILCU's savings protection scheme. For example:

> We're counting on it to be an early warning system. That's really what we're trying to use it as. We want to have really no calls on the savings protection scheme fund whatsoever, so we're using the PEARLS as an early warning system. (ILCU)

> The overall purpose of the monitoring department, in which PEARLS is used, is to protect the safety and soundness of credit unions. But even paramount above that, for us, is to protect the savings protection scheme fund. (ILCU)

When this question was asked of ILCU member credit unions, the overwhelming view was that the ILCU would use the information as a basis for monitoring, and ratios which significantly deviate from the norms would trigger a visit by an ILCU field officer. Indeed, a process that operated in such a manner was explicitly welcomed by a number of the credit unions, in some cases because of the professed weakness of the board of the credit union in relation to providing adequate internal monitoring. For example:

> Fundamentally the set of the credit union might [illegible]. there's nobody skilled on the [credit union] board. So you hope that the information you're sending down to Dublin... that somebody down there would be able to do something. You would hope it'll lead to a safer way of monitoring. (ILCU member NI)

> The perception would be, I [illegible], that if you were really out of line you'd have... I'd like to think if ours was out of line, we'd like to get a phone call the next day as soon as they have the analysis done saying, "There'll be a field officer out with you on Monday morning and will be there for the next fortnight". (ILCU member NI)

When asked whether the PEARLS information had been used in this way in connection with their own credit union or any credit union with which they were familiar, all the responses were in the negative. To some extent this was unsurprising, especially given that most of the ILCU member credit unions claimed that their own credit unions were well run and that their ratios were not particularly problematical. One ILCU affiliated credit union commented:

> I'd assume if they were very much out of line they'd send in the field officers. They'd take action... probably a phone call or a field officer out to look at it further... [but, referring to a visit from a field officer] we've never had it; and we haven't heard about it in our Chapter. (ILCU member NI)

The regulators had mixed views regarding the use of PEARLS by the ILCU. The NI Registrar welcomed the potential ILCU regulatory, or quasi-regulatory, role that the production and use of PEARLS supports:

> I'm sure it'll be useful for the ILCU in determining their audit programme, where they send their field officers to. From a regulatory point of view, it will be worth doing. (REGISTRAR NI)

In contrast, IFSRA argued that IFSRA's prudential report would replace it, and therefore any regulatory, or quasi-regulatory, role that it has will be redundant.

When asked about the use of PEARLS by the ILCU, CUDA and CUDA members saw this as being linked to an inappropriate, incorrect and somewhat resented assumption that the ILCU fulfils a regulatory role (whereas they viewed its responsibility as being limited to giving advice). For example, one CUDA member credit union, in clearly criticising the way the ILCU operates, stated:

> There's no regulatory status; it has been advisory. But it [the ILCU] has also been, I suppose, handholding credit unions; maybe even to the stage of overseeing bad policies. And I know they weren't charged with regulating credit unions, but they had given themselves, given the aura that they were doing all this monitoring and things like that, but it [the occurrence of improper behaviour on the part of a credit union] was being, I feel, wiped under the carpet... No serious action was done about it. (CUDA member)

In addition, in what might be considered an attempt to diminish the relative importance of the ILCU, CUDA waxed lyrically about the new IFSRA regime and what it was trying to achieve:

> I suppose it'll [IFSRA] only be proven ultimately with the test of time, but I would say, even in terms of their visibility on the ground at credit union level, this has increased enormously. I know, from speaking to credit unions, they've carried out a large number of inspections in the last year; something that was unheard of under the previous regime. Secondly, they are also introducing this new quarterly return. I believe it is being augmented by appropriate computer support, etc. in terms of monitoring and analysis... But their general approach, in terms of guidance notes and taking their regulatory responsibility, we would be optimistic... With this new quarterly report, they're not just getting data for the sake of it. (CUDA)

*Question 3: The use of PEARLS by the ILCU members*

One of the major claims by WOCCU for PEARLS is that it would be used as a management tool by individual credit unions. Indeed, this was stated as its most important use. Given this, question 3 looked at the use of PEARLS by individual ILCU credit unions. Similar to question 2, this question relates to the user-needs view of accounting ratio information and the notion that managers within a credit union can use PEARLS information as a valuable management resource (an aspect of the rational management model of organisations and the contribution of neutral accounting information to guide decision makers). As before, the regulators, members of the trade associations and representatives of individual credit unions were interviewed.

Given that PEARLS can be used as a management tool by credit unions, we were interested to ascertain views on its use in this context. Not unexpectedly, the ILCU was very positive about member credit unions using PEARLS and the benefits that might accrue:

> I think you get out of it what you put into it. If the credit union uses it… like we've had credit unions who absolutely love it and monitor it each month because that spreadsheet will do it for them. They have to do it four times a year for us, but they can do it at their own month end or anytime they like. They use it and find it very effective; each month they produce the results, they do a nice little update themselves for their own board, have a discussion on it and then once a quarter they give it a bit more time. They found it very useful. Even the simple stuff like loans to assets: if they are running an advertising campaign for loans, you can very quickly see if that campaign is working. If it is, the loans to assets ratio should be improving, if it's not, it probably means the campaign isn't working. So the ones that are using it are finding it very successful. (ILCU)

However, when the ILCU was asked to express an opinion on how many credit unions were using the PEARLS information, it was stated:

> Oh, I've no idea… I'd say there's about a quarter are not using it at all. They struggle to get the call report in and they probably don't use it until they get the results back. Perhaps the letter is opened and read, perhaps it's not. There are a quarter of them using it very well. Then there's the middle half who are using it tentatively. They are probably only getting used to it. It has been a learning curve, it's relatively new… Some of them I'd say barely open the envelope. (ILCU)

In addition, when asked about the degree of understanding, it was conceded that present levels were problematical:

> Obviously not every one on the board would have an understanding of it… [but] at least if the treasurer and manager look at it you're off to a good start. It's designed to be understood by the average board member but some of them may not be interested, or some of them no matter how simple the numbers are, just because it's numbers, won't understand. (ILCU)

When asked about what is done with the PEARLS information once it is received by the credit union, most ILCU member participants pointed to the role of the treasurer, and possibly the manager, as an important gatekeeper and interpreter. In addition, the limited engagement of the board of directors with such information was flagged. For example:

> What actually happens at the minute; I think there should be more discussion on them so the board as a whole knows more about them. What actually happens is that the treasurer or the secretary or the manager will go down through the report and pick the ones that we might not be best at… We're not interested, as long as we don't drop below this norm. For us I think it hasn't been used as much as it could be or should be, but it certainly has been a guide that we like to have there. (ILCU member NI)

When the perceived expertise of the board of directors to engage with the PEARLS information was explored it was clear that in most cases ILCU members sensed there was insufficient proficiency and limited interest. Fairly typical comments were:

> I don't think there are that many around the table [at board meetings] who'd be that interested in the figures and trends. (ILCU member NI)

> It's very difficult for ordinary board members, if not some treasurers as well, to get to grips with it and use the information. Because there's just so much of it and nobody is quite sure, well here anyway, of the relevance of various different bits of it. (ILCU member RoI)

However, there were a small number of examples where the board used the information, either by focusing on a few ratios that they could understand or, because of the particular make up of the board and its distinctive financial competency, on a wider set of ratios. It was suggested in the latter case that the particular mix of skills on the participant's board was not the norm:

> I read these things out, or most of them out, at the board of directors' meeting and you get a lot of blank stares. A lot of people don't really understand what a lot of it means. But there are some of them [the ratios] that are quite useful; say the percentage shares to loans and things like that. Delinquency, bad debt recovery, expenses ratios. (ILCU member NI)

> I think when you put it all together, when you add in my bit of experience and [a named individual]'s experience as a League person and as an insurance person, acting as a group, I think there's enough experience. We've been lucky in a sense. (ILCU member NI)

In terms of the provision of comparative data to credit unions (at present overall ILCU averages for each ratio for either NI or the RoI, depending on location, are provided with the individual credit union figures – in some cases norms for the ratios are also given), most ILCU member participants, while recognising that this was of some use, were of the opinion that more appropriate comparisons could be provided. For example, it was suggested that comparisons by size, urban/rural split or bond type might be more helpful:

> I feel that the one they have for the overall country in certain areas can be misleading. (ILCU member NI)

> For us to compare ourselves with the general credit unions would be an unfair comparison and not really relevant to us. (ILCU member RoI)

In addition, one ILCU member, as well as identifying that comparisons were not on an appropriate basis for his/her credit union, questioned the rationale for the norms given in the PEARLS report:

> We're not getting peer credit union statistics. I'm not sure at the moment that the goals or the target percentage figures are based on anything other than best guess or best estimate. I don't know whether they're based on best practice, or what should a well-run credit union be achieving or trying to achieve. So I'm not sure of those figures. (ILCU member RoI)

Non-ILCU participants were asked about what they perceived was done with the PEARLS information when received by the individual credit union. Although understanding of the PEARLS system was mixed with non-ILCU participants, most had at least a reasonable understanding of the broad thrust of the process (while a few had extensive knowledge of its detailed workings). On the whole, regulators and non-ILCU trade associations were skeptical that the information was understood and used, with it being perceived that many, although not all, individual ILCU credit unions did not have the financial expertise to understand and use it. For example, the NI Registrar suggested that, once the completed PEARLS report was received from the ILCU:

> I think there'd be two holes punched in it and put into a ring binder; apart from the big ones. There are a few that are very organised... The majority will file them away until the next one's due... Now, not them all, it's wrong to generalise. I think the more astute board of directors will see the benefit... but the majority of members and boards of directors are not financially competent to make use of this tool. (REGISTRAR NI)

In a much more strident fashion, a number of the non-ILCU credit union representatives, particularly the CUDA members, suggested that PEARLS contained too much information and made inappropriate comparisons. Moreover, some argued that it was up to specific credit unions to calculate and use ratios they found beneficial. One CUDA member argued this strongly:

> We calculate our own [ratios]. For example, at this particular point in time, I could give to our board: exactly what our outcome is going to be, near enough, at the end of the financial year; what dividend we're going to pay; how secure we are, our statutory reserve... These ratios [referring to the PEARLS ratios], to me, I've no time for them. I don't believe in them... We used to get ratios from the ILCU - worthless. Where we stood in relation to another credit union or blah di blah di blah. It would mean nothing to me. Nor did they mean anything, obviously, to the working of the other credit unions... giving ratios in to say where they were and do nothing about it; it's not worth the paper it's written on. You have to be prepared to work, you know. (CUDA member)

*Question 4: The drawbacks and costs of PEARLS*

Question 4 examined potential drawbacks and costs of using PEARLS. From the literature, issues such as cost-benefit considerations and the possibility of information overload had been identified as potential problems (Edwards and Hulme, 1995; Hyndman, McKillop, Ferguson and Wall, 2001). As with the previous questions, the views of the two regulators, senior individuals in the trade associations, and managers/chairmen of individual credit unions are presented.

In this instance, the view of the ILCU was that there were probably too many ratios, which was something that was recognised from the outset. As earlier highlighted, these interviews were undertaken when the ILCU published 42 ratios rather than the 27 which it now provides to member credit unions.

> We ran road shows when we were introducing it and even at that time credit unions said that they felt 42 was a lot. We did our best, we cut it down to a page of

> information, but as you can see it's a packed page; it is a lot to take in for your average director. But we will shorten it. (ILCU)

In addition, it was asserted that the large number of ratios provide problems to board members in terms of understanding. Indeed, it was claimed that the ILCU had plans to tackle this overload by the production and highlighting of a mere five key ratios in the future, albeit backed by a range of other supplementary ratios:

> We are working on the idea that we're going to use five key ratios. And the idea is then we'll give them a page with all the ratios, the letter before saying how the movement is getting on and then at a glance five key ones. So the ordinary board member will just get those five. Those five should give a snapshot of how your credit union is performing and then you'll have all the others underneath, whether it's 35 or 42. So the treasurer might go through the 42 in detail, the ordinary board member might be happy enough with the five key ones. (ILCU)

In terms of the costs of operating the PEARLS system from both a credit union's perspective and an ILCU perspective, the response largely was that the cost to an individual credit union was minimal, with no change in computer systems required and an estimated six hours of work per annum (one and a half hours, four times a year), largely on the part of the credit union manager or treasurer when completing the additional return information. However, the additional cost to the ILCU was viewed as more extensive, although there was no suggestion that a detailed costing had been undertaken. Indeed, while it was estimated that there were additional computing costs, the main further cost was related to the staff required to operate the system (estimated at three).

The overwhelming view of ILCU member credit unions was that there were too many ratios and it would improve the system if there were a smaller number of key ratios. For example:

> I believe there should be nine or ten statistics that are key financial performance statistics for the credit union that will measure and will alert you to potential problems and that, but not 42. (ILCU member RoI)

> I think it's too many. I certainly wouldn't understand the majority of those ratios. I think really for any board if you could limit it to somewhere between five and ten major or important ratios, that would be enough for any board really to want to look at on a regular basis. (ILCU member NI)

Other than this, there were few drawbacks mentioned by ILCU members. When specifically asked about the costs, all participants stated that costs were minimal and these related almost exclusively to the time required to complete the return four times a years. In addition, the fact that there was a fairly steep learning curve was mentioned by a number of participants. For example:

> I found that it does get easier. The first few times I did it, it was just a complete unknown to me and I was sitting down trying to work out the figures and trying to make sure the figures agreed... I find now, especially when I did the last one there, it just all fell into place and it's a lot easier... The actual direct costs for the credit union would only be the length of time it would take you to compile the report. I'd say it takes about half a day. (ILCU member NI)

However, one participant, while acknowledging that the PEARLS requirements were not onerous, expressed annoyance at the apparent duplication of return information required by the regulator and the ILCU and suggested that better coordination between the parties might help credit unions. Again, it should be noted that these interviews were undertaken prior to IFSRA's new prudential report (which reduced the degree of overlap between IFSRA and the ILCU). It was stated that:

> We do a report every year for the Registrar and he looks for reports in one form, and then the PEARLS comes along and they look for the report in another form. And you're driven crackers trying to get the computer to produce what you want. And I always say, "Why don't they get together and decide what they want to know". But apart from that, it's simple enough to fill in. You just put your accounts into it and draw out your reports from the computer. It's just a pain, that's all. (ILCU member RoI)

With respect to the perceived drawbacks of the use of the PEARLS system from non-ILCU participants, by far the most frequently mentioned was again that the large number of ratios was problematical from an individual credit union perspective. Reasons suggested for this included: a lack of focus on key issues; a potential lack of buy-in from users who perceive the system as being overly complex; and difficulties of understanding. For example:

> If they [the ILCU] had been up front with five or ten key ratios and then the detail below, where you can drill down into the detail, for those who wanted to, then that would have been fine. But I think it's a case where more is less. If you don't understand the five or ten key ratios, 42 is not going to make it any easier. I think you could end up turning people off the thing... [There are a few] critical dials you must be watching to control the organisation, and if you present someone with five of them, that's manageable. But if you give them a dashboard full of 42, and say, "Watch all those, make sure they don't move", I think that's a risk. (REGISTRAR NI)

> There was a concern of information overload or complexity; that the PEARLS suite was just so complex and rich that you could actually bypass the understanding capability of the average board... One of the concerns we had about the 42 ratios was: to what extent are they actually understandable at a credit union level or distillable into a way that could be understandable at a credit union level? (CUDA)

## DISCUSSION AND ANALYSIS

The research reported in this paper explores perceptions of the effectiveness of the supervision and monitoring of credit unions in Ireland. Specifically, it analysed the role played by one accounting ratio scheme (the PEARLS system) on both monitoring, supervision and decision making. In the paper, it was argued that the adoption of the PEARLS system, or indeed any financial ratio control and reporting system, can be viewed in relation to new institutional sociology (where there may be a desire to appear modern and/or legitimise the role played by an organisation) and in relation to ideas of rational accounting (where "neutral" accounting information is used to guide managers' actions). These themes will be referred to when discussing the results of the research included in this section.

The research indicates that most stakeholders, particularly regulators and trade associations, support the use of financial ratio metrics for both external monitoring and internal management control purposes. They perceive the case for such ratios to be strong. However, a number of questions arise, including: How many ratios should be used? Who should decide as to which ratios should be emphasised? For what purposes are they collected? It appears not to be a matter of regulators, trade associations and credit union representatives being either pro or anti ratio analysis; rather a matter of which standardised scheme(s) should be adopted with respect to credit unions. Several similar ratio schemes are used by various stakeholders (including DETI NI, IFSRA, UFCU and individual credit unions). Indeed, in a number of cases there is potentially significant overlap (for example, with an ILCU member in NI being analysed using schemes developed by DETI NI and the ILCU). Overall, good monitoring and supervision is seen as essential by all regulators, trade associations and credit union representatives, but disputes appear to arise over whose role it is to monitor credit unions and in what way should they be monitored.

The ascendancy of any one scheme may, in part, be an aspect of the way in which "turf wars" are conducted. This is evidenced, particularly in the RoI: by the reaction of CUDA and CUDA members to attempts by the ILCU to provide regulation (or quasi regulation) of ILCU credit unions through the PEARLS system; by the fact that PEARLS was introduced relatively quickly at the time IFSRA was taking over official responsibility for credit union regulation in the RoI; and by IFSRA's assertion, and subsequent reality, that their prudential report would supersede (and be different from) the original ILCU PEARLS requirements.

With the ILCU and IFSRA, assertions of providing more "modern" regulatory regimes (to replace "old fashioned" and "tired" systems) were made, perhaps as a basis for legitimising their particular activities and establishing a pecking order of players in regulating credit unions (as in the case of IFSRA's prudential report superseding PEARLS). In the RoI, the regulation of credit unions has since 2003 been transferred to IFSRA, which has taken to the monitoring and supervision of credit unions with some vigour and has introduced a range of new procedures/initiatives. Some might argue that this could be seen as not wanting to be 'a tired echo of what went before' (Parry, 2003). Similarly, the fact that "modern" PEARLS, as a replacement for "outdated" CAMEL(S), was introduced by the ILCU in 2003 (at speed and with very few changes from WOCCU's model) at the time IFSRA was assuming responsibility for credit unions in the RoI suggests an attempt to provide a legitimation of the ILCU's activities in a period of perceived threat. That a system, which originated as a support for credit unions in developing countries, was applied relatively quickly with minor modifications in a developed country with a relatively mature credit union movement (Ireland) suggests a degree of haste and possibly brings into question its suitability. The fact that actions to modify the ratios, and in particular reduce the number, were put in train soon after the introduction of PEARLS reinforces this suggestion.

The espousal of the importance of enhanced .ipervision and monitoring,
particularly by regulators and trade associations ay be linked to a growing
emphasis on regulation, monitoring and governa in a range of business and
not-for-profit organisations (Cadbury, 1992; Ham 1998; Cornforth, 2003) and
reflects the spirit of the age. In addition, a numbe credit union representative
participants expressed support for increasing su ision and monitoring as it
provided comfort to individual credit unions, in so :ases being viewed as cover
for weaknesses in internal control systems. I ever, the possibility that
individual credit unions may be "regulated" by a n ɔer of "regulators" (be they
the regulator or the trade association) which each l at similar issues (including
using similar financial ratios), have an extensive e ıal audit process conducted
by a qualified auditor (covering some of the sa ground), and put in place
extensive internal control procedures (again possi .dealing with similar issues),
raises the risk of "over accounting" in the credit u sector (something born out
of multiple accountabilities and multiple deman Edwards and Hulme, 1995).
Such can be extremely wasteful and undermine efficiency of the individual
credit union and the credit union movement as a ole. Alternatively, with such
multiplicity of demands and schemes, the possi of "under accounting" can
occur as each stakeholder (be it a regulator, a tra ıssociation, an auditor or an
internal supervisory committee) assumes that anot stakeholder is taking a close
look at actions and results. In this case, it is possib at major issues slip through
the net.

WOCCU views the most important obje of PEARLS as being the
provision of an executive management tool, information provided by
PEARLS assumed to be used as the foundation fo ınning and control within the
credit union. This use is associated with the ide m the rational management
literature, that decision makers within the o ation (either managers or
members of boards) need to be provided wi propriate information that
*encourages them to make logical* decisions that rel furthering the objectives of
the credit union. Such a view presupposes that ion makers can understand
and utilise the information provided (in this cas ɔs). However, this research
highlights that in most credit unions PEARLS in tion is not understood and
used. Indeed, many decision makers withi lit unions struggle with
understanding the information, and the situatio rticularly problematic with
respect to members of boards of directors. Whil ɔme credit unions, there is
particular expertise (although rarely broadly s throughout the board of
directors) that results in PEARLS information bec the language of discussion
and decision, this is not commonly the situatio rally, there is not enough
expertise to facilitate the effective use of PEARL education and training, to
date, has been patchy. The completion of the call ınd the review of PEARLS
information are often merely rituals in which cre ıs engage. At best, in most
credit unions, the ratios are reviewed by the ma l the treasurer, but do not
become a major issue at meetings of boards o ɔrs and do not impact to
anything like the extent that WOCCU statements .

While the main objective of PEARLS, as stated by WOCCU, and a likely objective of any ratio system, is to facilitate managers in their decision-making responsibilities, all of the regulators and trade associations realise that the extent to which this is likely to be achieved in most credit unions is small. This is because of a lack of financial skills among managers and boards of directors. In reality, and perhaps because of the limited financial skill base in credit unions, the views of each of the regulators and trade associations were that such schemes were primarily to do with supervision and monitoring rather than providing a management tool. For example, such was the belief of the ILCU participant, where it was also strongly associated with the overall objective of safeguarding the savings protection scheme. In addition, most credit union representatives also saw PEARLS in terms of supervision, possibly because they do not understand the information.

The level of resources available in each jurisdiction (NI and the RoI) for monitoring and control is very different. Even after allowing for differences in credit union numbers, it is clear that IFSRA in the RoI is much more heavily resourced to deal with credit unions than their DETI NI counterparts. As a result, the views of the two regulators had very different thrusts. At the time of the interviews IFSRA was well along the path of developing a prudential report to supersede (or perhaps, as it turned out, to complement or steer the development of) PEARLS, as well as a range of other initiatives to improve monitoring and control. In contrast, DETI NI, which is much more resource constrained, was very supportive of the quasi-regulatory function of the ILCU which utilised PEARLS information. Indeed, its risk assessment was influenced by the existence of such a framework.

## CONCLUSION

This paper has demonstrated that compliance demands upon credit unions emanate from different sources. For example, there exist internal control mechanisms which are overseen by the credit union's supervisory committee. The trade associations, to varying degrees, also place compliance demands on member credit unions. These two aspects of compliance may be categorised as self-regulation. The regulators are further players, and arguably the most important in imposing compliance requirements upon credit unions. It is our view that for credit unions to develop and flourish requires an appropriate and an adaptive regulatory and supervisory framework. The correct framework helps safeguard members' funds, promotes confidence in individual credit unions and helps engender a confidence in the movement as a whole. In contrast, too onerous a framework runs the risk of stifling credit union development, while too lax an environment is also detrimental in that it may lead to credit union failures and, through systemic risk, may place the movement as a whole in jeopardy.

It is noted that in the RoI a sizeable cohort of well qualified staff are at present employed in the Office of the Registrar within IFSRA representing a significant expansion on the number available to the Registrar of Friendly Societies who previously was responsible for the general regulation and supervision of credit unions. The Registrar for Credit Unions in NI is located within DETI. The Registrar in NI, relative to his counterpart in the RoI, has very limited manpower and statutory powers. The safeguarding of the credit union system in NI is therefore relatively more dependent upon the monitoring and supervision by the ILCU and UFCU of its member credit unions, as well as the overseeing roles by auditors, boards of directors and supervisory committees. Given this, a positive recent advance is that for ILCU credit unions in NI the prudential report, introduced by IFSRA for RoI credit unions, has been adapted for completion and submission by ILCU credit unions in NI. A viewer system has also been developed to permit the prudential report to be viewed off-line by authorised personnel such as the regulator in NI.

The empirical research reported in this paper reveals that most stakeholders, particularly the regulators and trade association, support the use of financial ratio metrics for both external monitoring and internal management control purposes. They perceive the case for such ratios to be strong. Overall, good monitoring and supervision is seen as essential by all. However, disputes appear to arise over whose role it is to monitor credit unions and in what way they should be monitored; and the possibility of "over accounting" arises as wasteful duplication of monitoring occurs. Such "turf wars" can be very counter productive and have the potential to fragment, and undermine confidence in, the credit union movement. It would seem appropriate that a review of the reporting and supervisory requirements pertaining to Irish credit unions be undertaken in order to avoid replication of control activities and regulation overload. In addition, such a review might deal with the extent to which all credit unions should be subject to the same level of regulation (with the possibility that smaller, volunteer-based credit unions have less onerous requirements). At present, some credit unions provide different reports to the trade association and to the regulator, as well as being the subject of an annual audit by an accounting firm. Furthermore, the credit union may also have site inspections and visits from its trade association and the regulator. Often the focus of the audit, each of the reports and each of the visits will, to some extent, be similar. Given that many of these credit unions rely heavily on volunteers, such duplication is inefficient and ineffective, and ultimately can undermine the performance of the credit union. Although there are recognised and real dangers of too lax a supervisory environment, the costs of regulation overload are considerable.

This research explored the use of PEARLS as a management, as well as a supervisory, tool. The research highlights that in most credit unions, PEARLS information is not understood and used. Indeed, many credit unions struggle with understanding the information, and the situation is more problematical with respect to members of boards of directors. The recent reduction of the number of ratios from 42 to 27 may help matters to some extent. However, the limited financial skill base in many credit unions probably means that PEARLS remains primarily a supervision and monitoring mechanism rather than a useful management tool. Nevertheless, the potential remains for systems such as PEARLS to help individual credit unions improve planning and controlling their individual activities. For progress to be made on this front it seems that education and training support relating to this would need to be widely provided, possibly by the trade associations, and embraced by the credit unions themselves. The strength of the movement as a whole, and the performance of individual credit unions, would be enhanced by such a development.

The Irish credit union movement, which contains organisations inspired by the community for the community, is an undoubted success story, with credit unions improving the lives of many members. Given their increasing scale and complexity, and an increasing modern-day focus of all organisations on control, the issue of the correct monitoring and supervisory framework has come to the fore, with the potential role of financial and accounting ratio systems such as PEARLS receiving considerable coverage. This paper, which explores these issues, suggests that the elimination of duplication, the reinforcement of the ideals of cooperation and discussion (to replace "turf wars"), and the commitment of trade associations and individual credit unions to improve professionalism within credit unions, would all help in the establishment of an appropriate and robust control environment. Indeed, it could be argued that such developments are essential in providing the necessary foundation for the continuing success of the Irish credit union movement.

## NOTES

1 Using these numbers to calculate the penetration levels of credit unions in Ireland would be misleading because there is a small element of double counting, with some members belonging to more than one credit union. For a comprehensive discussion of this see McKillop et al. (2006), who argue that while there is double counting, it is still the case that the level of acceptance of credit unions in Ireland, particularly in the RoI, is remarkable when set against the penetration statistics for the older, more mature credit union movements of the US (46 per cent), Canada (21 per cent) and Australia (24 per cent).

2 The number of 69 UFCU credit unions is correct as at the end of 2004. More recently, the issue of the savings protection scheme has caused further reductions in UFCU membership. As at June 2006 numbers had declined to 51.

3 In Ireland the ILCU began using PEARLS in June 2003, replacing the CAMEL(S) system that had previously been used. The CAMEL(S) framework, originally developed in the US for banks, attempted 'to reflect a bank's financial condition, its compliance with laws and regulatory policies, and the quality of its management and systems of internal control' (see Cole and Gunther, 1995). Each institution is subject to a yearly on-site examination, with the examiner judging the institution on six dimensions, referred to as component factors: capital adequacy; asset quality; management; earnings; liquidity; asset/liability management; and sensitivity to market risk. Benchmarks for each component are provided as guidelines, but the on-site examiner has discretion to consider other pertinent factors. Two major criticisms (with regard to credit unions) of the CAMEL(S) system are noted by Richardson (2002): its lack of evaluation of the financial structure of the balance sheet (which has a direct effect on efficiency and profitability); and its lack of consideration of growth rates. Richardson also criticised

CAMEL(S) on the basis of its subjectivity, as well as the fact that it was designed as a supervisory tool, rather than a management tool.

4 Since June 2005, ILCU credit unions no longer submit a call report directly to the ILCU, but rather complete a prudential return for IFSRA which is then forwarded by IFSRA to the ILCU (for ILCU members). The ILCU computes the 27 ratios from the prudential return data. For ILCU members in NI, a return consistent with the prudential return is completed and returned directly to the ILCU in Dublin. A viewer system has been developed to permit DETI (NI) to access the PEARLS information for NI ILCU credit unions.

5 Hood (1991) suggested that NPM is a convenient, though a rather loose, term that is a shorthand for a set of broadly similar administrative doctrines that dominated the reform agenda in the public sector in many OECD countries from the late 1970s. For a comprehensive coverage of NPM, see the special issue of *Financial Accountability & Management*, Vol. 15, Nos. 3 and 4, 1999.

6 In the late 1990s, in an attempt to standardise IT systems within credit unions and provide automated services (with the ultimate objective being to enable electronic fund transfer), the ILCU embarked on the ISIS project. This was financed by a levy on each credit union payable in two tranches and, eventually, over 60 per cent of the ILCU credit unions supported the project, raising €35 million towards its then suggested cost of €60 million. It was anticipated that the new IT system would be in place by 2000. However, in July 2000 the project's anticipated cost had increased dramatically to €100 million. It also emerged that while some credit unions had paid the full levy, some had paid only the first tranche. Equally worryingly, it transpired that the ILCU had used part (estimated to be €8 million) of the savings protection scheme's reserve fund in order to finance the troubled ISIS project, as well as €4 million from the ILCU's own general fund. Not surprisingly, a number of credit unions, led by Tullamore Credit Union, one of the largest credit unions in Ireland, mobilised to publicly oppose the ISIS project. In January 2001, the ILCU confirmed that the ISIS project had run out of funds. Subsequently, it was abandoned.

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