

Neighbourhood Credit Union: To Merge or Not to Merge, Daphne Rixon & Gina Grandy



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Introduction

- Small credit union (CU) in Atlantic Canada (Neighbourhood) evaluating a merger with a larger CU (Pleasantview)
- Goals of Neighbourhood CU -> enhance member benefits via improved technology, innovative delivery channels and more robust financial planning and wealth management services

Introduction

- Ben Chang, Neighbourhood's CEO concerned about lack of strategic fit with Pleasantville
- Chang was scheduled to meet with Board of Directors in 4 days time
- He needed a recommendation for the board concerning the status of the merger as well as provide options for the future in the event the current merger didn't work out

Competition with Financial Institutions (FIs)

- Mergers and acquisitions (M&A) started in 1980s to compete with banks and provide technology for customer service
- Big 5 banks encroaching on CUs -> increasing customer service, investing in corporate social responsibility, etc
- Niche players/small CUs challenged by shrinking margins and aging membership

Competition with Financial Institutions (FIs)

- Centrals promoted mergers to protect survival of CUs
- Many small CUs do not have expertise and resources to respond to increased technological changes

Methodology

- Formal and follow-up informal interviews conducted in 2015 with CEO and “merger” consultant at Neighbourhood.
- Organizational documents and publicly available documents were also consulted.
- Case is disguised with respect to the name and location of the CUs, names of CEO and consultant and financials.
- Timeline, process followed, key decisions and opinions of the CEO and merger consultant as presented in the case are real.

Neighbourhood CU

- Small, one branch, 9 employees
- In sound financial position, 2300 members
- CEO Chang worked in banking for 30 years before joining Neighbourhood
- Chang recognized top down approach of banks not in alignment with coop principles and values
- CEO set to retire and wanted to leave his CU in ‘the right place’

Merger Initiative

- Neighbourhood issued expression of interest (EOI) to all CUs in region
- Atlantic Central provided project manager, facilitator, statistician and communications resources to aid with merger process
- Neighbourhood hired consultant to assist
- 5 proposals received – selected Pleasantview located in a rural area 100 Km's away, 8 branches, 12,000 members, 75 employees

Merger Concerns

- Pleasantville much larger, but had equity position of 7.7% compared to Neighbourhood's 11.11%
- Chang felt positive at first
- Pleasantville did not have the IT infrastructure Chang had hoped for and did not appear interested in further IT investments

Merger Concerns

- Chang concerned benefits did not outweigh disadvantages
- Chang and Neighbourhood's consultant as well as Board reps on transition committee felt Pleasantview treated the merger as it would be handled in investor-owned company
- Factors other than bottom line are important for CUs

Decision Time

- Due diligence review complete and both CUs into planning stages
- It was Monday, Jan. 12 and Chang needed a report on the merger status ready for board meeting on Friday, Jan. 16
- Chang knew board relied heavily on his opinion and if he recommended not pursuing the merger, they would agree

Decision Time

- Chang also knew if this merger failed, another merger would be considered eventually
- He wanted to provide recommendations to guide future mergers
- McDonald (consultant) wondered if Quebec federated model might be a better approach for Neighbourhood and surrounding small CUs

Decision Time

- Desjardins provides technology platform, access to capital markets and wealth management that small CUs (Caisses) could not provide on their own.
- Caisses retained our management structure and Board of Directors.
- With 4 days before the Board meeting, Chang asked McDonald to draft a report

Epilogue

- At Friday's board meeting, Chang outlined his concerns and the board voted to reject the merger
- There are no further merger activities ongoing by Neighbourhood at this time

Teaching Notes

- Courses: 3rd – 4th year undergrads and graduate students
- Appropriate for strategic management and co-operative / not-for-profit management classes intended for a 60-75 minute class session

Learning Objectives

1. Familiar with purpose and role of credit unions and co-operatives
2. Apply merger and acquisition protocols appropriate for the co-operative and credit union context.
3. Evaluate and determine how credit unions, manage commitment to their co-operative principles, while also ensuring growth and sustainability, in an increasingly competitive external environment.
4. Identify the advantages and disadvantages of a proposed merger and develop strategic options for a small credit union.

Discussion Questions

- What is driving the merger process for credit unions in Canada and specifically for Neighbourhood and Pleasantview? How is this similar or different to merger motivations in other sectors?
- Evaluate the proposed merger between Neighbourhood and Pleasantview? What are the potential benefits and risks for Neighbourhood?
- Evaluate the merger process developed and implemented by Neighbourhood. Provide recommendations to Chang that would improve it for a future merger process.
- Develop a recommendation plan for Chang to present to his Board that takes into account the proposed merger and other possible avenues for Neighbourhood.

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