

## **Effect of Co-Operative Credit Union on the Economic Well-Being of Employees: A Case Study of Norpalm Co-Operative Credit Union**

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**Abstract:** The purpose of the study was to examine the effect of co-operative credit union (CCU) on the economic well-being of employees. The study was a case study with a sample size of 182. However, only 179 of the respondents participated in the study. The census method was used to capture all the respondents. A questionnaire with three sections was the instrument used to address the research objectives. Data analyses were applied, including cross tabulation, frequency and percentage distribution. The findings from the study have established that credit union scheme has assisted members significantly in overcoming most of the financial challenges facing them. This helped in improving the quality of life of the members. Management staff of the union was found to lack the needed professional competence and expertise for managing the scheme. Based on the key findings and conclusions the study recommended to management of the union to ensure that interest rates are reduced further and the competence of the management staff of the scheme is upgraded in risk and investment management to make the scheme more sustainable to continue enhancing and improving the economic well-being of its members significantly.

**Keywords:** Co-operative credit union, economic well-being, financial challenges, non-banking financial institutions.

## **INTRODUCTION**

Globally, co-operative credit unions (CCUs) play an important role in the economic well-being of employees by offering banking and financial services to its members. Compared to all depository institutions in Ghana, CCUs are relatively small with 10 percent of the Ghanaian market [1]. Roughly, in Ghana, 75 percent of CCUs have total assets of about \$81 million, while 80 percent of commercial banks and 85 percent of savings institutions have assets of \$100 million. Less than two percent of CCUs have assets of \$1 billion [2]. CCUs, like commercial banks and thrifts, are both private and public chartered enterprises.

Like all other financial depository institutions, CCU take deposits and offer loans to its members. While CCUs resemble banks, they have several distinctive legal differences. For example, they are not-for-profit, and are exempted from most internal revenue taxes. They return earnings to their membership in the form of reduced fee on loans and increased interest on deposits, or they may re-invest earnings into the credit union [3]. Traditionally, credit unions were formed with stringent membership criteria based on a common bond such as employment, association, religious, or community organisation [4]. Following many policy interventions and legislation in 2001, CCUs in Ghana

expanded their services to include share certificates and long-term mortgage lending, making them competitive in the financial sector [5].

The impact of CCUs on the economic well-being of employees has extensively been researched into in the developed world. However, there is little evidence in the literature that provides the impact of economic well-being on access to credit since there seem to be bi-causal relationship between co-operative credit union and employees' economic well-being. Similarly, there are few studies that focused on the effect of CCUs on the economic well-being of employees, especially within the Ghanaian cultural context [6]. Well-being in this study is economic well-being and it is not synonymous with poverty levels because well-being itself includes poverty. Well-being also encompasses capability and functioning of the individual but in this study it has been used in its simplest form to mean what makes the life of the individual employee worth living.

The use of this indicator is very important from the CCUs point of view if they want to minimise the adverse selection and delinquency problems in credit delivery. The researcher argues that the well-being of employees and clients will serve as a basis for

justifying credit approval where physical collaterals are not demanded. Again well-being of employees of the company has the potency of minimising the moral hazard effects that contaminate contracted loans. One of the fastest growing sectors of the Ghanaian economy, over the last decade has been the financial sector [5, 2, 1]. As a result, many new banks have entered the market offering very competitive terms of credit retailing. The non-bank financial institutions such as CCUs and other micro financial institutions have also adopted very innovative strategies of financial intermediation.

Despite the stiff competition, the various CCUs in the country, particularly Norpalm Co-operative Credit Union (NCCU) continues to record a phenomenal growth in both the number of primary societies as well as membership. However, there is no evidence to show that the positive gains of NCCU have impacted positively on the lives of employees, or even improve their standard of living. This gap therefore, motivated the researcher to assess the benefits and facilities available to members as well as the effect of the union on the economic well-being of members.

#### **Objectives of the Study**

The main objective of the study was to investigate the effect of CCU on the economic well-being of employees. Specifically, the study:

- Identify the financial challenges of employees of Norpalm Ghana Limited.
- Examine the products and services provided by NCCU to its members.
- Assess the effect of NCCU on the economic well-being of employees of the company in the face of competition from banks and non-banking financial institutions.

#### **Significance of the Study**

The study is intended to emphasise the view of the researcher that NCCU has a tremendous impact on the quality of life of its members and for that matter their economic well-being. The union is capable and is a dynamic organisation that is dedicated to the economic well-being of members. This phenomenon of NCCU could motivate more organisations, communities and churches to have the impetus to establish credit union schemes in their organisations. The findings of this study could also help to encourage the habit of thrift, savings and investment on the part of employees in the country. Similarly, government, policy makers and other stakeholders on CCU will find the study very useful. Knowledge on savings mobilisation and wealth creation could be enhanced.

Furthermore, the contribution of this study could be that well-being scores are used to estimate demand for credit contrary to traditional poverty scores and interest rates. This is because in selecting clients for

credit approval, institutions' focus is on economically active clients who can profitably use borrowed amounts; meaning well-being of clients is important in determining how economically active clients are. In this study interest rate has been ignored for two reasons: employees of NCCU do not really care about interest rates when they are in dire need of credit and the data used is from only the organisation and interest rate will therefore not vary. The study therefore proposes that clients' well-being be used as an indicator for selecting clients in granting loans.

#### **Scope of the Study**

The study focused on the financial challenges of employees, and the various products and services provided by the NCCU to its members. The study was further delimited to only members of the NCCU and the two staff in charge of the union. Therefore, the generalisation of the results of this study to other groups with similar characteristics should be done with caution and extensive analysis and comparison.

#### **LITERATURE REVIEW**

The past century has seen employees who are members of CCUs take a commanding place in the labour market, especially in professional development. This shift potentially does not only affect the well-being of the employees but also the wellbeing of their parents and their family as a whole [7]. Chevan and Stokes aver that employees play an important role in the development of their children emotionally, physically and spiritually, even if they disagree on practically parenting issues. Given a reasonable stable household and a level of economic stability, where the children can receive all the emotional and physical benefit offered to the general populations, parents' response to the children are still the best. However, in this age of inflation and rising prices, resulting in economic tension, employees feel that it is incumbent upon them to contribute to their well beings, relieving anxiety in the hand to mouth existences. Employees are fighting a tough battle of their life for providing the prosperous and comfortable life of their family [8].

Some CCUs in Ghana may be designated as low-income credit unions by MoFEP. This designation allows the various CCUs in Ghana to create room for these organisations to accept non-member deposits and secondary capital in order to better serve its membership and community. Many of these low-income designated credit unions serve narrow fields-of-membership, such as groups of employees. However, less attention has been given to well-being and other household characteristics that influence clients' access to micro-credit among employees especially. The third of the Millennium Development Goals seek to promote gender equality and women empowerment. This goal has as one of its indicators as monitoring the share of employees especially women in wage

employment in the CCUs that focus on agriculture [9]. The implication is that the empowerment of employees in agriculture related businesses are essential and integral component of pro-poor development and civil society strengthening, since it helps in boosting the economic well-being of employees. Mann [10] avers that increasing the number of entrepreneurs in the agricultural sector who involved in starting new businesses and expanding existing ones are critical to a country's long-term economic growth.

In every economy various avenues exist for addressing the financial needs or challenges of citizens and households [11]. Banks have been established with specific aims and objectives, but ultimately to satisfy the expectations and aspirations of their clients as well as the general public. However, in view of the risks associated with bank finance, most banks are unable to satisfy the needs of employees and households in respective countries. It is for this reason that non-banking financial institutions such as NCCU was established to reach out to the specific needs of employees of the Norpalm Ghana Limited and the indigenes of the various communities around the catchment area of the company.

This was necessary since larger employee population in the company do not have access to certain banking facilities due to lack of requisite collateral security as well as other constraints. In spite of the flexible policies operated by non-banking financial institutions in an attempt to make funds available to the public with less restrictions. Most employees in pro-poor communities such as Ewusiedjoe-Takoradi in the Western Region of Ghana are unable to access funds adequately for exploitation of their full potentials and taking care of other personal expenses such as school fees, medical fees and so on.

The result of these challenges discussed is generally poor economic well-being of employees and to the country as a whole. This can also lead to poverty, unemployment, illiteracy and other social vices in the communities. Most governments, especially in the developing world, have encouraged and promoted the establishment of micro credit unions in both private and public sectors of the economy. This is part of the strategies that can be used to narrow or eliminate poverty in the various communities and in the country at large [2]. The co-operative credit union movement has been identified as a potential means of mobilising funds for personal, as well as, business development [12].

## METHODOLOGY

The research design adopted for the study was a case study. Case study design, as observed by Merriam [13], is employed to gain an in-depth understanding of the situation and meaning for those

involved. The interest is in the process rather than the outcome, in context rather than a specific variable, in discovery rather than confirmation.

## Population, sample and sampling procedures

The accessible population for the study was all employees of Norpalm Ghana Limited (NGL) who are members of the NCCU. As at the time of the study, NCCU had 182 members who were all permanent employees of the NGL [14]. The study employed the census method, which was deemed appropriate and feasible, since the number of employees who were members of the NCCU was small. The census again was necessary since members of NCCU were quite different from each other. Members of the NCCU comprised of management staff, senior staff and junior staff. According to Malhotra and Birks [15], it is always appropriate to use the census method in such studies since the population is small and variable, any sample the study uses would not be representative of the population from which it is drawn from. The researcher believes that the respondents share adequate attributes, skills and knowledge about the activities of the NCCU as a whole that will help in enriching the data collection.

## Data collection instrument and procedure

The main instrument used in gathering data for the research was questionnaire. The questionnaire was self-designed instrument. This instrument helped the researcher in collecting reliable and reasonable data within a relatively simple and cheap short space of time. Prior to the administration of the questionnaire, an informal familiarisation visit was made to the study area, that is, NGL for the confirmation of the number of employees who are members of the NCCU and to seek for more information concerning the employees and the union. The heads of the various departments of the company were written to for permission to carry out the study in their respective departments. The questionnaires were self-administered, but with some support from the heads and some senior staff of the departments. Other questionnaires were sent to the respondents through an e-mail and they were able to answer and send back to the researcher through the same means. The total number of questionnaires retrieved by the researcher was 179, which represents 98.4 percent of the response rate.

## Data analysis

The data that were collected were first grouped for sorting. After the sorting, they were coded manually using numerical values for the variable view of the Predictive Analytic Software (PASW) Version 18.0. Test Analytics for Surveys (TAFS), a tool of PASW, was used for coding the data and analysing verbatim responses to close and open-ended items in the questionnaire. After this, the data were inputted into the data view to complete the keying process. When these

were done, the descriptive statistics were used to analyse the data. Specifically, cross tabulations, frequency and percentage distributions were used to analyse the data in order to examine the specific objectives of the study.

**RESULTS AND DISCUSSION**

The first objective of the study identifies the financial challenges of employees of NGL. Both open-ended and close-ended items were used to elicit data on the issues concerning this objective. Respondents were first asked to indicate three of the most pressing welfare challenges they are facing as members of the NCCU. The results are presented in Table-1.

**Table-1: Welfare challenges faced by employees as members of NUCC**

Welfare challenges	Ticked		Unticked	
	Frequency	Percent (%)	Frequency	Percent (%)
School fees	104	58.1	75	41.9
Medical expenses	60	33.5	119	66.5
Rent advance	134	74.9	45	25.1
Home improvement	75	41.9	104	58.1
Home acquisition	97	54.2	82	45.8
Land	60	33.5	119	66.5
Car/Motor bike/bicycle	80	44.7	99	55.3
Funeral expenses	45	25.1	134	74.9

Source: Field Data, 2018. (n = 179)

As contained in Table-1, majority of the respondents were of the view that the most pressing welfare challenges they face as members of the NCCU are money for rent advance (74.9%), school fees (58.1%) and home acquisition (54.2%). However, 44.7 percent and 41.9 percent of the respondents indicated that money for car/motor bike/bicycle and home improvement respectively are some of the welfare challenges they face. Only 25.1 percent of the respondents who indicated that money for funeral expenses were one of the welfare challenges they face.

The findings corroborate with the submissions of Fairbairn *et al.*, [6] who posit that acquisition of houses, cars, land, and payment of medical expenses, funeral expenses and rent advances are a few needs that members of a co-operative credit union expect to be satisfied with as and when they arise.

Respondents were further asked to indicate three of the most pressing investment challenges they face as members of the NCCU. The results are presented in Table-2.

**Table-2: Business/investment challenges faced by employees as members of NUCC**

Business/investment challenges	Ticked		Unticked	
	Frequency	Percent (%)	Frequency	Percent (%)
Land	105	58.7	74	41.3
Vehicles	57	31.8	122	68.2
Building	104	58.1	75	41.9
Equipment/machinery	59	33.0	120	67.0
Business inputs	121	67.6	58	32.4
Working capital	44	24.6	135	75.4

Source: Field Data, 2018. (n = 179)

Table-2 shows that the most pressing business/investment challenges respondents face as members of the NCCU, in order of importance, are money for business inputs (67.6%), land (58.7%) and building (58.1%). The purchase of vehicle is the least business/investment challenges they face. The results show that these challenges as indicated by the respondents are what they expect the union to narrow or eliminate in order for them to be able to start their own business. The views of the respondents are in line with the comments of Fairbairn *et al.*, [6] who aver that CCUs serve members from all walks of life, including the poor and disenfranchised. They added that CCUs provide members the opportunity to own their own

financial institution and help them create opportunities such as starting small businesses, building family homes and educating their children.

Further data were elicited concerning some of the financial challenges employees of NGL face. The study examine challenges such as time period require to qualify for a personal welfare loans or business loans, the cost of borrowing for personal welfare loans or business loans, and the duration for payment of personal welfare loans or business loans. Most of the respondents stated that in terms of time period for loan qualification, cost of borrowing and duration for payment of loans, the banks are killing them. They

added that most of them find it difficult to meet the banks conditions. However, with regard to the CCU, the respondents asserted that they are more flexible and cost of borrowing is insignificant at all as compare to the commercial banks or even rural banks. Issue of collaterals do not even come in at all.

Almost all the respondents admitted that it takes an employee six months long to qualify for either personal welfare or business loans. With regard to the interest rate, records from the union report [14] show that an interest rate of three percent is charge on all loans. Large chunk of the respondents further added that the conditions for repayment of personal welfare or business loans are very flexible such that it takes an employee about two years or more to repay his or her loan. Preponderance number of the respondents acknowledges that the coming of NCCU has drastically narrow or even eliminate most of their financial challenges. The findings support the assertions of MoFEP [5] who posit that some of the challenges getting in the way of positive financial results include shrinking interest margins, health of the over-all economy and the resultant impact on their members' financial health.

Identifying the products and services provided by NCCU to its members was the second substantive specific objective of the study. Both close-ended and open-ended items were used to elicit data on the issue. Firstly, respondents were asked to list the various products and services available to them as members of the NCCU that aid in improving their economic well-being. Most of the respondents indicated, in order of importance, that some of the products available are loans to start business, loans for school fees and personal development, loans for rent and car loans. The views of the respondents go further to buttress the points that the NCCU through its flexible loans structures has improved the life chance of its members significantly.

According to Saskatchewan Co-Operative Credit Unions [12], CCUs help very poor employees or

households to meet basic needs and protect against risks, is associated with improvements in household economic welfare. The findings are consistent with the assertion that CCUs attempt to improve access to small deposits and small loans for poor households who are mostly neglected by banks [4]. Therefore, they involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. Credit union services are directed to improve the economic and social well-being of all members. CCUs encourage thrift through savings and thus provide loans and other services to its members. They also pay fair rate of interest on savings and deposits, within the capacity of the co-operative credit union [5]. In relation to building financial stability, a prime concern of co-operative credit union is to build its financial strength, including adequate capital reserves, and operating internal controls that will ensure continued service to members.

Respondents further stated that personal welfare and business/investment facilities such as loans for educational expenses, loans for medical expenses, loans for land, loans for business inputs, and loans for vehicles were facilities they could have access to. But after joining the union, they now have access to all these facilities which have improved their life and well-being significantly. The views of the respondents are consistent with the general perception on the impact of co-operative credit unions. Generally, CCUs help in reducing poverty in the society. For instance, a report on a public project in Ghana showed that three-quarters of clients saw "significant improvements in their economic well-being and that half of the clients graduated out of poverty [5].

The last objective of the study focused on the effect of NCCU on the economic well-being of employees of the company in the face of competition from banks and non-banking institutions. Four items were used to elicited data on the issues. Respondents were first asked to rate the performance of NCCU over the past five years. The results are presented in Table-3.

**Table-3: Rating of NCCU performance over the past five years**

Responses	How will you rate the performance of NCCU over the past five years?	
	Frequency (No.)	Percent (%)
Excellent	13	7.3
Very good	14	7.8
Good	110	61.5
Average	33	18.4
Poor	9	5.0
Total	179	100

Source: Field Data, 2018.

The results in Table-3 show that majority (61.5%) of the respondents rated the NCCU performance over the past five years as good. Only, 5.0

percent of the respondents rated it as poor. The views of the respondents show clear that the operation of the NCCU has impacted positively on the economic well-

being of its members. The views of the respondents are in line with the comments of most researchers. The past century has seen employees who are members of CCUs take a commanding place in the labour market, especially in professional development. This shift potentially does not only affect the well-being of the employees but also the wellbeing of their parents and their family as a whole [7].

Chevan and Stokes [7] aver that employees play an important role in the development of their children emotionally, physically and spiritually, even if they disagree on practically parenting issues. Given a reasonable stable household and a level of economic stability, where the children can receive all the

emotional and physical benefit offered to the general populations, parents’ response to the children are still the best. However, in this age of inflation and rising prices, resulting in economic tension, employees feel that it is incumbent upon them to contribute to their well beings, relieving anxiety in the hand to mouth existences. Employees are fighting a tough battle of their life for providing the prosperous and comfortable life of their family [6].

Respondents were further asked to indicate their level of agreement to the question that “NCCU has significant impact on the standard of living of its members”. The results are presented in Table-4.

**Table-4: Significant impact of NCCU on the standard of living of its members**

Responses	Norpalm Co-operative Credit Union has a significant impact on the standard of living of its members?	
	Frequency (No.)	Percent (%)
I strongly agree	15	8.4
I agree	151	84.4
I disagree	11	6.1
I strongly disagree	2	1.1
I do not know	0	0.0
Total	179	100

Source: Field Data, 2018.

With regard to the significant impact of NCCU on the standard of living of its members, preponderance number (84.4%) of the respondents agreed that NCCU has a significant impact on their standard of living. The views of the respondents show that in the face of all the competition from banks and non-banking financial institutions in the country, NCCU has a significant impact on the well-being of employees of the company. The views of the respondents mean that NCCU operations in the community has helped employees to sustain a specified level of well-being by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved. It therefore means that when CCUs understand the needs of the poor and try to meet these needs. The services of these unions can have a positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in society.

CCUs are the most sustainable, scalable and cost-effective poverty alleviation tool [3]. The idea is simple; individual employees are provided with small loans to start or grow small businesses, allowing them to become economically self-sufficient, provide for their families for the long-term and replace dependency on limited donor funds. MoFEP [5] also aver that CCUs have played a significant role in eradicating poverty, promoting education, improving health and empowering women as a whole.

The last section of this chapter elicited data on respondents with regard to suggestions that they think can help improve the operations of NCCU. Respondents were further asked to make some recommendations that can help management of NCCU in other for the union to have sound management. Most of the respondents stated that the union should employ staff solely to manage the union, ensure compliance to credit union laws and process, and also adopt interventions that will affect the surrounding communities. The respondents further suggested that the union must ensure prompt repayment of loans, statement of accounts are presented yearly to members, employ independent professionals who can be accountable to the employees, give members some logistics at the end of every year, and periodic audit of the union’s account. One of the employees stated that “the union must organise biennial training programmes for managers of the NCCU”. This will help boost their skills and technical know-how and they will be abreast with current technology and skills require in the financial sector or industry.

**CONCLUSIONS**

CCUs have a very important role to play in the well-being of its members and for that matter the total development of employees as a whole. They also provide material capital to the poor employees which help in strengthening their sense of dignity. This helps to empower the employees to participate in the economy and society. In some cases they help change the status of the employee to an employer through

capital investment, loans and so on which help their members to start their own business.

Employees of NGL faced certain financial challenges like school fees, medical expenses, funeral expenses, land, cars, home acquisition or improvement. However, most of these challenges were met by the NCCU, with educational expenses being the highest and the lowest was loans for means of transport. Also, NCCU operations in the community has helped employees to sustain a specified level of well-being by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved. It therefore means that when CCUs understand the needs of the poor and try to meet these needs. The services of these unions can have a positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in society.

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