CANADIAN CENTRE FOR THE STUDY OF CO-OPERATIVES (CCSC)

Collaboration among Credit Unions—Some Considerations

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1.0 INTRODUCTION

Canada's credit unions are under pressure.

For many years now, there has been growing consensus that the status quo is not sustainable — credit unions must prepare themselves to work differently if they are to continue to maintain and enhance their contributions to the financial well-being of households and communities across Canada.

The banking sector in which they compete is undergoing rapid change, driven by an increasingly complex policy and regulatory environment, and an accelerating shift towards digitalization. Credit unions are doubly challenged by these circumstances because they have traditionally excelled at the face-to-face interactions that are no longer necessary or desired by many in today's online world. What's more, the gaps between big and small credit unions continue to widen, complicating their attempts to pull together to confront shared challenges.

Credit unions know they must respond to their changing operating environments. However, they face an inherent tension between the simultaneous demands to create efficiencies of scale through mergers, consolidations, or second-tier activities, and to adhere to the co-operative principle of local autonomy, which is characterized by member control.

Researchers at the Canadian Centre for the Study of Co-operatives (CCSC) have long been preoccupied by the challenges co-operative organizations face when they attempt to balance their needs to create system-wide efficiencies against the principle of local decision making — a problem we refer to as the "efficiency-autonomy trade-off" (Fulton, Fairbairn, and Pohler 2017, 3).

In most strategic areas, Canada's network of credit unions continues to emphasize autonomy at the cost of competitiveness. In some cases, this is not due to autonomy being the sector's first choice but because discussions aimed at collaboration have failed to result in agreements. For example, the unsuccessful negotiations among Desjardins, the Centrals, and CUMIS aimed at the creation of a national payments strategy — PayCo — came as a disappointment to many.

However, failed efforts are not inevitable. In December 2017, shortly after PayCo conversations stopped moving forward, Desjardins Group and a partnership comprised of Canada's five provincial credit union centrals (the Centrals) and The CUMIS Group announced a definitive agreement to merge the businesses of their subsidiaries, Credential Financial, Qtrade Financial Group, and NEI Investments. When the transaction closed in April 2018 with the creation of the new entity, Aviso Wealth, it was recognized as a momentous achievement for the Canadian credit union sector.

In 2019, researchers at the CCSC, together with partners from HEC Montréal, embarked on a series of interviews with key players on both sides of the Aviso negotiations to understand how they had come to a deal. This was important because for some time it had looked as if the goal of a sector-owned wealth management platform would meet the same fate as PayCo. It took a second round of negotiations, with different players at the table and different approaches to the talks, to make the joint venture work.

Careful review of the strategies used in this second round of discussions towards the creation of Aviso allowed our research team to identify a set of key approaches for credit unions aiming to collaborate. This paper draws from that research to outline four principles that may be useful to credit unions as they continue to work towards improved competitiveness and sustainability.

2.0 RECONCILING AUTONOMY AND EFFICIENCY: THE AVISO CASE

In 2018, Aviso Wealth emerged as a joint venture among Canadian credit unions and their centrals, CUMIS (whose majority owner is The Co-operators), and the Desjardins Group. It merged three co-operatively owned financial firms: Credential Financial, Qtrade Financial Group, and NEI Investments. As of November 2021, Aviso has grown its assets under management and administration by more than $50 billion, to over $105 billion, exceeding its 2021 Operating Plan target by $14 billion.

There are, of course, many ways to think about partnerships or collaborations between credit unions to maximize efficiencies. Whether merging, connecting in a joint venture, co-operating through a second-tier organization, or working together through some other arrangement, the goal remains to improve competitiveness while allowing each credit union to stay true to its core values. This challenge might seem insurmountable, but the success of Aviso proves that it is achievable when discussions are approached in the right way.

In 2019 and 2020, researchers at the CCSC and HEC Montréal interviewed more than a dozen individuals involved in the successful Aviso negotiations, along with senior executives from Aviso. Our semi-structured interviews focused on the strategies used by individuals and teams and people's experiences during the negotiations, along with the processes of the merger itself. Careful analysis of our interviews identified four keys to successful negotiation among co-operatives:

1. Discussions among credit unions considering joint ventures or collaborations should be anchored in values and principles, rather than positions.
2. All parties should do the groundwork necessary to get buy-in from their own stakeholders before negotiations begin.
3. Negotiating parties should be made up of a diverse array of experienced and engaged representatives.
4. Opportunities for face-to-face meetings and informal conversations should be built into the process, especially early on, to facilitate the creation of trust and shared principles.

3.0 PRINCIPLE 1: ANCHOR DISCUSSIONS IN VALUES AND PRINCIPLES, RATHER THAN POSITIONS

Positional negotiation is a bargaining strategy that involves one or more parties doggedly sticking to a fixed idea of what they want. A classic example is the haggling that might occur between a vendor and customer over the price of an item when one of them will not budge. It sounds simplistic, yet the approach is sometimes adopted in more complex business negotiations. Unfortunately, this approach can result in unwise agreements, lengthy, ineffective processes, and/or soured relationships.

In the first round of discussions towards the creation of a co-operatively owned wealth management platform — what eventually became Aviso — positional bargaining resulted in a failure to reach agreement. Talks broke down when the credit union side insisted on majority ownership, which the Centrals believed they would need in order to have the support of their many credit union members. But Desjardins responded with a control price that the Centrals deemed too high, and negotiations stalled. This was not the only issue leading to the parties' failure to secure a deal in the first round of negotiations, but it was a deciding factor.

The problem is that positional bargaining tends to frame negotiation as an adversarial, zero-sum exercise focused on claiming rather than co-creating value. There are some situations in which positional bargaining is the correct strategy, but it is not the best approach to negotiating a joint venture, where mutual trust is essential. It is particularly ill-suited to joint-venture negotiations among co-operative enterprises, whose business models require that decision-making processes as well as decisions themselves are legitimate, accountable to diverse stakeholders, and foster the sharing of power by stakeholder decision makers.

Drawing from a 2020 paper by Heath and Isbell, we propose that credit unions aiming to work together should approach their negotiations in the spirit of "principled collaboration." This means that discussions should be viewed as an ethical practice facilitating legitimacy, accountability, and shared power. This is because even a joint venture owned by co-operative organizations is not a private good but a collective and, in some ways, public good. As in democratic society more broadly, "good" negotiations among co-operative organizations are not simply "effective" (obtaining desired outcomes for one or more parties) but must be themselves principled or "higher than any one party's goal" (Dalio 2018).

In their second round of discussions towards a joint venture, the credit union side adopted the approach of principled negotiation to achieve a collaboration with Desjardins, using objective criteria and focusing on common interests, and in this second round, they reached a deal. We propose that a commitment to a principled and democratic negotiation process is the first and foundational key towards successful collaboration among credit unions.

4.0 PRINCIPLE 2: SECURE BUY-IN FROM YOUR STAKEHOLDERS BEFORE STARTING TALKS

Earlier research by the CCSC has emphasized the importance of establishing and maintaining legitimacy in the eyes of stakeholders as a key governance challenge for co-operatives (see Fairbairn, Fulton, and Pohler 2015). This principle also holds true for negotiations towards collaboration among co-operatives.

The credit union sector outside of Quebec is diverse and disparate and, prior to the creation of Aviso, there were many different opinions about Desjardins' more centralized federation and feelings of distrust among some entities. Not everyone in the credit union sector outside of Quebec thought a joint venture with North America's largest federation of credit unions was a promising idea. They were worried that Desjardins might throw its weight around.

In the first round of negotiations, those representing the credit union centrals were convinced that majority ownership in any joint venture would be the only way to make the deal palatable to their members. For this reason, they held fast to the position of 51 percent, which Desjardins countered with a firm control price.

But this was not the only problem resulting from the Centrals' strategy. For starters, Desjardins had doubts about the valuation used to support the credit union negotiating position. Based on the credit unions' poor record of achieving coverage, penetration, and capture rates of manufactured proprietary wealth management products,[1] and the fact that some of the large credit unions had jumped ship from Credential to Qtrade, Desjardins was also not convinced that the credit unions would actively support a collectively owned wealth management platform. That the Centrals sat at the bargaining table next to, but not yet in partnership with, CUMIS representatives — meaning the negotiations were three-way — only added to Desjardins's skepticism.

In the second round of negotiations, Garth Manness, CEO of Manitoba Central, employed principled negotiation in conversation with the credit unions and their centrals, and then with the credit unions and CUMIS/The Co-operators, to bring them all together in a shared vision and agreement prior to meeting with Desjardins. Only once buy-in from all these parties had been comfortably secured did they form a holding company (Holdco, later Wealthco) so that they could negotiate as a single entity with a shared agenda.

Following Fulton, Fairbairn, and Pohler (2015), we observe that Manness recognized the interdependencies — among credit union management and their boards, the credit unions and their centrals, and the credit unions and CUMIS/The Co-operators — and worked carefully to get buy-in from all stakeholders before entering negotiations. This allowed the credit union side to be open to options different from those previously on the table.

Manness's strategy also addressed a concern expressed by Desjardins in the first, failed, round of discussions. Based on prior experience with NEI, Desjardins had been worried that the credit unions might not actively support a shared platform. By ensuring that credit unions (and not just the Centrals) were fully on board with the negotiations before they began, Manness alleviated much of this concern. He also commissioned a new valuation and study of options by a major consulting firm, providing both the credit union side and Desjardins with numbers they could trust.

5.0 PRINCIPLE 3: BRING EXPERIENCE AND DIVERSITY TO THE TABLE

Simple negotiations can be handled by individuals. When negotiations are complex, however, organizations need to assemble a team. Complexities to consider can include:

- requiring knowledge from a range of areas
- impacting multiple stakeholder groups
- holding enormous potential for innovation or value creation
- unfolding over an extended period

Teams are more capable than individuals at developing trade-offs among issues, and they are better at exchanging information, largely because they have more information. Teams also tend to reach better outcomes, because negotiators on a team feel less personally competitive than individuals, and this allows them to think more flexibly about viable solutions.

Teams can be subject to groupthink, however, and when this happens, poor decisions are often made. For this reason, credit unions should ensure that negotiating teams are composed of individuals who bring with them a range of different experiences and expertise, and who may be differently affected by the negotiation's outcome. The team will benefit from members sharing their different perspectives — and even their opposing views — and from challenging each other's ideas during the preparation stages. Diversity, in short, is a better precondition for arriving at what Fulton, Fairbairn, and Pohler call the "right" view of the future (2017), that is, a more accurate vision of the uncertainties that lie ahead and a bigger, better toolkit for dealing with them.

When working as part of a group in preparation for negotiations, stakeholder representatives should keep the interests and perspectives of their constituents and/or organizations firmly in mind, while also considering the goal of the greater good. A case in point: While credit unions share a basic set of values and principles, different organizations place more weight on some and less on others. While preparing for their talks with Desjardins, for instance, some credit union representatives on the team advocated strongly for the centrality of member experience, while others were more focused on the potential for growth. When the group realized that member experience would be a deal blocker for some, these concerns were incorporated into the larger strategy, and as a result, the team gained the mandate it needed to engage in joint problem solving with Desjardins.

A good team leader will encourage team members to voice their concerns openly during the preparation stages and ensure that they are genuinely and constructively addressed. This is key to bringing a unified team to the negotiations and will ensure that final outcomes are widely supported and viewed as legitimate.

6.0 PRINCIPLE 4: BUILDING TRUST IS ESSENTIAL AND TAKES TIME.

It is difficult to make a workable deal if there is no trust in negotiations. Even if a deal is made in the complete absence of trust, it will be extremely challenging to implement. Trust is essential in negotiations towards a collaboration of any sort, whether one-time or ongoing.

Building trust takes time, but in most situations, there are real time constraints. Where teams must be built with individuals from different organizations, face-to-face meetings are particularly important at the outset of planning conversations. When Manness first began working with credit union representatives to propose a second round of talks with Desjardins, he was adamant that they meet in person regularly for the first several months, so that members of the team could come to trust each other. Remember, trust is not established through words alone, but through body language, facial expressions, and gestures. Only once the diverse credit union team members had "gelled" did Manness begin setting up virtual meetings.

When co-operative organizations negotiate with each other towards any sort of collaboration, there needs to be trust between teams too, and not just within bargaining groups. For this reason, credit unions putting together a team should include among the mix at least one good bridge builder — somebody who has a positive relationship with team members on the other side and will be able to understand that party's goals, metrics, and concerns.

In short, credit unions embarking on a negotiation process towards collaboration with other credit unions face a paradox. Negotiating teams composed of diverse individuals will be collectively smarter and more capable than individual negotiators or even nondiverse teams. At the same time, trust is essential for teams to work well together and for talks with potential collaborators to go well, but trust is more difficult among diverse or heterogeneous groups. Team leaders must thus make extra efforts to facilitate and maintain trust through every step of negotiations, from planning to execution and beyond.

7.0 CONCLUSION

Credit unions can benefit from the lessons offered by the process that resulted in the creation of Aviso Wealth. In ways big and small, all credit unions are engaged in trying to resolve the ongoing tensions between the demands to create efficiencies of scale through mergers, consolidations, or second-tier activities, and to adhere to the co-operative principle of local autonomy. These challenges lie at the heart of co-operative governance and leadership, which underwrite the credit union difference.

Aviso shows us that it is possible for co-operative financial institutions to work together to achieve shared sectoral goals, in ways that align with the values and ambitions of all participating organizations. The crucial point is for organizations to focus on the process of collaboration first, and the outcome later. This is because in negotiations among credit unions, the purpose is not simply to obtain certain outcomes, but to ensure that the discussions themselves are principled and democratic, which is likely to underpin the legitimacy of the outcomes among stakeholders.

This paper is intended to provide some simple but important guidelines for credit unions across the country engaged in, or considering engagement in, processes of merger, consolidation, second-tier activities, or partnerships such as joint ventures. By following the guidelines described here, credit unions can successfully manage their interdependencies, develop better pictures of the uncertain future, and build legitimacy for changes they undertake in their efforts to address present challenges.

ENDNOTES

[1] These products were manufactured by NEI, a company jointly owned by the credit unions and Desjardins. NEI's legal name is Northwest & Ethical Investments L.P.

[2] The research was conducted by Jen Budney and Marc-André Pigeon from the CCSC and Martine Vezina from HEC Montréal, with the assistance of Mathieu Fortin-Lalonde.

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