



KELLOGG COLLEGE

# REFRAMING BUILDING SOCIETIES AND MUTUAL INSURERS

COLLABORATION AS A SOURCE OF COMPETITIVE  
ADVANTAGE:

A SUMMARY REPORT

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## Foreword

*By Robin Fieth and Martin Shaw*

As two of the leading trade bodies representing the financial mutual sector we were delighted to sponsor this valuable piece of work from the Centre for Mutual and Employee-Owned Business at Kellogg College, Oxford.

The financial services industry has undergone significant change in recent years, particularly in the aftermath of the financial crisis. The desire to modify and control behaviour in firms and in particular in the boardroom has been understandable, and many have begun to question to what extent the increasingly homogenised supply of financial products from large PLCs has been harmful to society in general.

That has in turn given leaders of mutual organisations an opportunity to begin to question how they can best compete in today's marketplace. This piece of research is part of the answer, and begins to articulate how the combined strengths of the financial mutual sector can be a force for good in the financial marketplace.

In the course of their work the researchers, Daniel Tischer and Ruth Yeoman, have spoken to many people in the UK financial mutual sector, and elsewhere, in order to test their conclusions. They also benefited from the support of a high-level Advisory Group which has reviewed the findings. We are very grateful for all their work, and hope this summary document, and the wider academic report, provide a firm foundation from which to develop a stronger, more co-ordinated financial mutuals sector.



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## 1. UK financial mutuals operating environment today

Since the financial crisis began in 2007/08, financial mutuals<sup>1</sup> have been promoted by government and civil society as offering consumers an alternative to mainstream financial providers. At the same time, regulators, think tanks and academics have made compelling arguments for the need for greater diversity within finance, both with respect to ownership and organisational practices.

Overall, financial mutuals have responded well to these demands: building societies collectively outstrip net mortgage lending by mainstream banks comfortably<sup>2</sup>, and mutual insurers recovered from their market share low at 5% in 2007 to now 7.5%<sup>3</sup>.

However, to speak of a revival of the financial mutual sector in the UK ignores the impact the 'decline' of mutualism in the UK has had culturally over the past 30 years. Since the late 1980s, the UK mutual sector has been marked by increased competition, demutualisation and consolidation:

*"Pre the financial crisis, Government policy was always, 'Big is beautiful'. So you have got 20 years of government policy of, 'Consolidate. We want big banks, big insurers, to influence on the global scale'." [Senior Regulator]*

Although this has now stabilised and there are signs that some, but not all, financial mutuals are capitalising on changing consumer attitudes towards financial services – declining trust in mainstream financial services, higher expectations on customer service and increasing use of digital technologies – the sector is at a point where it should collectively discuss its strategic options. Interviews conducted with sector organisations have shown that some of the pre-crisis developments and the focus on competitiveness may not have been the best approach, but in some ways a necessary response; however, most of those interviewed acknowledge that the potential role of the sector has been neglected in doing so:

*"[...] I would agree that at the moment, in most cases, unless there are some changes, fairly radical changes in the underlying circumstances and drivers of the mutual community in general, it looks like it is going to shrink, as it has been in the building society sector at least anyway, rather than grow." [Senior Regulator]*

*"Collaboration is a key strategy for sector survival: If you were trying to come up with strategies to keep the number of building societies above 35, I would say that collaboration probably is the number one factor that would enable that to happen." [Financial Mutual Chief Executive]*

In order to identify potential and future developments in the UK Financial Mutuals sector, we combine a theoretical and conceptual discussion with a description of three scenarios, highlighting the impact that action and non-action may have on the sector in the long-term. We have identified these three scenarios as: independence, where individual mutuals continue to pursue organisation-based strategies for the benefit of their own members; partnership, where mutuals combine resources and capabilities in temporary or issue-focussed strategic partnerships; and collaboration, where a subset of the mutual sector, or even the entire mutual sector, co-creates a new business model.

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<sup>1</sup> In this paper this term is used to collectively describe building societies, friendly societies and mutual insurers.

<sup>2</sup> <https://www.bsa.org.uk/statistics/bsa-statistics>

<sup>3</sup> <http://www.financialmutuals.org/resources/mutually-yours-newsletter/mutuality-and-insurance>

## 2. Outlining possible futures – three scenarios for the UK financial Mutual sector

We propose three broad scenarios to be considered: independence, partnership and collaboration. Together, these describe a continuum of activities from individual organisation-focused initiatives (*independence*), shared partnership based projects such as cross-selling (*partnership*), through to a break-through whole sector strategy, producing a new business model, even to the extent of instituting federated arrangements (*collaboration*). We argue that the ‘collaborative logic’ is already being deployed in the financial mutual sectors of other countries.

### Scenario 1: *Independence*

The ‘status quo’. Partnering remains selective and tactical when the advantages of doing so are obvious to both parties. However, being effectively contractual in nature, these engagements limit exchange of knowledge and expertise. Individual independence is preserved, but potential larger gains from partnering and collaboration remain unrealized. This static scenario may result in further consolidation, leading to increasing polarisation of the sector along commercial versus mutual ambitions. In the longer-term this scenario would slowly erode the mutual basis – ‘a comfortable decline’. The threat of future demutualisation would be detrimental for rest of the sector, in particular if a large actor demutualises.

### Scenario 2: *Partnership*

A protective strategy with prospects for developing new joint capabilities and attractive offerings to members across the mutual sector involving both building societies and mutual insurers. Cross-selling between those groups springs to mind as an obvious strategy through which to strengthen mutual organisations and to develop a ‘true’ mutual sector. The potential advantages of this scenario include:

- Strengthen the connections between insurers and building societies in the longer term;
- Improve competitiveness by sharing cost of innovation, product development and back office functions;
- Develop economies of scale and scope with benefits shared more evenly;
- Develop the public image and recognition of mutuality by more clearly delineating the boundaries between the mutual and mainstream offerings<sup>4</sup>;
- Enable organisations to strengthen the cultural bond of mutual self-help.

### Scenario 3: *Collaboration*

This scenario reimagines the sector as a collective endeavour. Mutuals would openly share knowledge and coordinate activities so that individual organisations can share the benefits and no single organisation is disadvantaged. Centralised services may produce new mutuals thus overall revitalising the sector. However, for this scenario to be workable, UK mutuals need to re-evaluate how they engage with one another and need to change modes of leadership to appreciate, and work towards, mutual goals that are effectively elevated from the goals of the individual organisation. The Finnish case outlined below serves as a showcase: the move towards centralisation was not jointly agreed at the beginning, mainly because of a similar cultural resistance, the feared lack of independence, that constrains potential action in the UK. One of the key aspects of this scenario is that the more dominant organisations would need to step back from their singular ambitions and accept the role of

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<sup>4</sup> Given the repeated and continuous mis-selling scandals, customers may become more aware of alternative product offerings in future.

‘orchestrator’ as, for example the BSA/AFM or a joint version of the two, as relevant coordinating actors within this model. This does not mean that any mutual company would have to temper their individual aspirations, but it would mean that organisations should also consider the implications such actions may have on the financial mutual sector as a whole<sup>5</sup>.

One of the most significant tasks involved in establishing and sustaining such cross-sector collaborations is living up to an agreed set of values and principles. In this regard, the UK financial mutuals sector (building societies and mutual insurers) enjoy the significant advantage of their shared mutual ethos. Under Scenario Three, ‘*Mutuality*’ (discussed in the next section) is viewed as a resource which the sector could activate and deploy in establishing values-based governance, developing integrated leadership and co-creating a new business model. Inter-dependence, stakeholder inclusion and voice, social as well as financial purposes, long-term perspective, system thinking are all features of mutuality in action, and therefore the natural territory of building societies and mutual insurers.

Research on these options in the past, and activities amongst mutuals themselves, has focused on scenarios one and two. This report will therefore focus on scenario three.

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<sup>5</sup> Any agent – whether a trade association or a member - which initiates collaborative projects will need to satisfy themselves that competition law is not infringed, and legal advice may need to be sought. While competition law contains exceptions, under certain conditions, for collaborative agreements that improve production, distribution or promote technical or economic progress while allowing consumers a fair share of the resulting benefits, individual firms and trade associations will need to take great care that they are not preventing, restricting or distorting competition.

### 3. Features of successful Inter-firm Collaboration

Despite challenges involving external agents, a first step would necessarily involve UK financial mutuals in identifying and agreeing on the envisaged degree of and potential areas and scope for collaboration. This may include all financial mutuals; however, the participation of all members of the sector, in particular the largest mutuals, is not imperative.

Thus involving only those mutuals that accept collaboration as a valuable addition or alternative to the current set-up may indeed produce better results given the different attitudes towards collaboration. Ideological differences have been overcome using a two-tier system previously. For example, financial cooperatives in Canada have developed two systems, one that is highly coordinated in Quebec (Desjardin), and a second one (Credit Union Central of Canada) featuring only some centralised services, in particular payment systems<sup>6</sup>.

Successful Inter-firm collaboration includes building the institutional fabric of the ecosystem through commitment, intent, ethical orientation, purpose orientation, trust, leadership, boundary spanning roles, operational support and fostering a long term perspective.

Given this, we propose a framework for thinking about the strategic elements of inter-organisational collaboration centred on mutuality which can be used to examine the basis for collaborative initiatives under scenario three. The key elements include the articulation of:

- a shared need reflecting for example an ambition for what the financial mutual sector should look like in 10 or 20 years;
- shared values, including respect, equality, dignity, fairness, care and mutual aid;
- stakeholders and their responsibilities with respect to the co-creation of the operating model, its capabilities and governance arrangements;
- and the specification of outcomes and shared value.

An example of an institutional mechanism which contributes to collaborative system design are collaborative communities which are high trust social arrangements that establish the mutual assurance needed for actors to pool their needs and generate collective action. A particularly important social process in building collaborative communities is the joint construction, interpretation and incorporation of values. Mutuality provides an important resource of sector-wide values with a recognised history and cultural resonance. This is a significant advantage for the financial mutuals sector when considering strategic options under scenarios two and three.

#### *Mutuality*

*“I, a couple of years ago, said there was no appetite to challenge, but certainly under the current leadership of the BSA, I think there is an appetite to challenge the status quo. I'm hopeful that some things can begin to move on this. As to how you do it, it's almost like you need some kind of trust set up that would accumulate capital in the early days to then be able to pump prime these kind of things.” (Financial Mutual Chief Executive)*

Mutuality is both a philosophy and an organisational practice. As a philosophy, *mutualism* is a set of ideas and principles governing the relations between individuals: ‘a doctrine that individual and collective well-being is obtained only by mutual dependence’<sup>7</sup>. As an organisational practice, *mutuality* is characterised by distinctive ownership and governance structures which express the

<sup>6</sup> <http://www.cucentral.ca/Documents/Credit%20Union%20System%20Structure.pdf>

<sup>7</sup> Kellner, P. (1998) *New Mutualism: The Third Way*. London: Co-operative Party, p.7.

values of equality, fairness and mutual respect through democratic decision-making. Mutual organisations are public and private enterprises, which have the potential to provide social and environmental, as well as economic, benefits and are 'owned and controlled by members who are drawn from one (or more) of two types of stakeholder – consumer and producer – and whose benefits go mainly to these members'<sup>8</sup>. Mutuals produce ownership forms which not only include diverse stakeholders in their governance arrangements, but through stakeholder voice, have the potential to produce new business models based upon practices of co-creation. By attending to mutual dependence, the satisfaction of shared needs and the desire for belonging, mutuals provide a structure for cooperative and meaningful human relationships.<sup>9</sup>

Mutuality is fundamentally relational and interactive and one of the core tasks for leaders of mutual organisations is the creation of 'relational value' through the alignment of their governance architecture with their culture, values, leadership and organisational structures<sup>10</sup>. Mutual organisations are concerned with the production of mutual relationships at multiple levels. Mutual relationships possess the following features: interdependence, inclusiveness, cooperation, and human values of equality, fairness, care, respect, and dignity. Where such relationships are fostered between individuals and organisations, trust and confidence is built up, facilitating the conditions for collaborative action including information sharing, joint working and deliberation.

Under scenarios two and three, this task needs to be undertaken at both an organisational and a sector level. In order to secure value from mutual relationships, leaders will need to acquire competences in understanding multiple stakeholder perspectives, building long-term relationships and holding together diverse interests both within and beyond the traditional boundaries of the business. In particular, leaders will need to recognise the importance of long term thinking, engaging with different stakeholders, building trust, understanding the burdens and risks carried by each stakeholder group, and sharing the benefits arising from their joint activities.

### *Mutual Leadership*

Mutual organisations require an appropriate leadership model. Leadership of a mutual organisation is distinct from leadership of a conventional organisation, particularly in the demand upon leaders to exhibit mutual values and involve members. However, if collaboration at the level of the sector is to succeed, mutual leadership becomes more demanding, as leadership must extend beyond the boundaries of the single organisation to include collective partnerships, and even system-wide collaborations. Yeoman and Roll (2015)<sup>11</sup> offer a useful starting point for leaders to consider what mutuality may suggest for their leadership work:

Mutuality is a philosophy which describes how we are to live with one another. As such, mutuality is concerned with the values, principles and practices which specify the social conditions under which we are prepared to join our efforts to those of others in order to secure together what one cannot secure alone. As an organising philosophy, the objective of

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<sup>8</sup> Birchall, J. (2010) *People-centred Businesses: co-operatives, mutuals and the idea of membership*, p.4. London: Palgrave Macmillan.

<sup>9</sup> See Yeoman (2013) <http://www.respublica.org.uk/our-work/publications/making-mutual-ownership-revolution-britain-needs/>

<sup>10</sup> See Grönroos, C. & Helle, P. (2012) Return on relationships: conceptual understanding and measurement of mutual gains from relational business engagements. *Journal of Business & Industrial Marketing*, 27(5): 344-359).

<sup>11</sup> Yeoman & Roll (2015) *Conceptualising Mutuality*. Working Paper. The Said Business School, University of Oxford

mutual organisation is to distribute among all affected stakeholders a fair share of the benefits and burdens arising from their collective activities.

The research has identified senior management as one source of resistance towards instilling a more collaborative sector. Fears of loss of control and power, often masked by a supposed lack of advantages for their members, requires rethinking how sector leaders interact and understand mutuality. The more recent, yet fundamental reorganisation of the Finnish cooperative banking sector serves as a good illustrative example. In their study of OP-Pohjola Group, a Finnish financial group containing 198 local member co-operative banks, Saila *et al.* (2012)<sup>12</sup> identified the following characteristics by which shared leadership could be recognised: in the quality of interactions; evaluated by how well the problem was solved together; enacted in how all individuals contributed to the process of leadership; understood as a joint effort of interdependent individuals, including high levels of communication; and aimed at mutual benefit and the common good. Leadership models appropriate to organisation-level leadership abound. However, there is less appreciation of what is needed for 'system leadership', and what developmental processes will produce the relevant leadership skills and attributes. Some alternative useful leadership contexts include:

1. Integrative Leadership: groups and organisations are being brought together across boundaries in 'semi-permanent ways' to solve complex problems towards achieving a common good<sup>13</sup>.
2. Mutual Leadership: leaders need to acquire a specific set of skills, behaviours and attitudes (through collective learning) to work collectively towards achieving a collective good.

In essence, mutual leaders of inter-organisational collaborations will be grappling with Complex Adaptive Systems which are 'neural-like networks of interacting, interdependent agents who are bonded in a collective dynamic by common need'<sup>14</sup>. This will require leaders to exhibit attributes, behaviours and skills consistent with the values and principles of mutuality. The core leadership tasks for the production of relational value will include:

- Articulating shared need
- Securing resources
- Cultivating mutual relationships
- Orchestrating conversations for shared decision-making
- Fostering the formation of an inter-group/collective identity
- Encouraging systems thinking between stakeholders
- Supporting reflexivity through feedback

In any case, constructive engagement amongst participants in a system of collaborative governance will be characterised by fair and civil discourse, an open and inclusive conversation representing the diverse interests of key stakeholders and are informed by perspective and knowledge of all participants. Thus leaders will have to adapt to a series of behaviours and attitudes to cultivate inclusivity and instil confidence of and commitment from those involved. Moreover, leaders would need to demonstrate political and moral authority, build relationships and trust and think strategically to enable the achievement of outcomes and value expressed in the shared need.

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<sup>12</sup> Saila, R., Iiro, J. & Pasi, T. (2012) Leading Together for Mutual Benefit: Shared Leadership in the Context of Co-operative Banking. *Business and Management Research*, 1(4): 99-108.

<sup>13</sup> Crosby, B. C. & Bryson, J. M. (2010) Integrative leadership and the creation and maintenance of cross-sector collaborations. *The Leadership Quarterly*, 21(2): 211-230.

<sup>14</sup> Uhl-Bien, M. & Marion, R. (2009) Complexity Leadership in Bureaucratic Forms of Organizing: A Meso Model. *Management Department Faculty Publications*. Paper 38 <http://digitalcommons.unl.edu/managementfacpub/38>

#### 4. Examples of collaboration in practice

The major challenge of making an argument for collaboration is the difficulty of making concrete claims about how specific measures would impact on the sector, and in particular, putting these gains in numbers, for example, cost-savings across the sector, because:

- Whilst cooperative systems in other countries can serve as examples to illustrate how collaboration can be successful<sup>15</sup>, these must not be taken as blueprint for a system in the UK;
- Examples of collaboration across the financial mutual sector in the UK are exceptions, often tactical or opportunist and limited to few players, and outputs are often intangible.

##### *International examples*

Existing collaboration between cooperative/mutual<sup>16</sup> banks highlight the potential benefits associated with these types of systems; however, these systems are set up within specific nation states and thus are subject to different institutional, cultural and economic factors that influence their function.

1. For example, some collaborative systems – Germany, Netherland, Canada – have grown historically since the 19<sup>th</sup> and early 20<sup>th</sup> century. The first central bank for mutual banks in Germany was founded in 1883, followed in 1920 by the establishment of the *German Cooperatives Federation* and the first protection scheme in 1930. Today's German mutual banking sector was remodelled in 1972. The Dutch Rabobanken system also reorganised its affairs in 1972 through a merger of its urban and rural mutual banking systems. Similarly, the Canadian Desjardin Group has established central institutions since the 1920s and a central federation in 1932. This long history of cooperating clearly has implications for understanding organisational, operational and cultural features and how success is measured.
2. The Finnish reorganisation of its mutual banks on the other hand was an outcome of the Finnish banking crisis in the early 1990s. The Finnish example employed a top-down implementation strategy and used the Dutch system as a model, but the crucial message is that it is possible to substantially reorganise a mutual sector when such a move is supported by organisations within the sector as well as external actors, in particular government. However, it is important to keep in mind that in the Finnish case, the move was necessitated by an external shock, i.e. the banking crisis, which provided the momentum for change.

*“You find it in, for example in Germany and in the U.S. shared IT platforms are pretty common. They are not shared in the sense that they are sharing exactly the same system and everybody’s data is sitting in the same database, but they are sharing a common platform, a common system and all the infrastructure around it. In fact in Switzerland we operate a shared banking centre that has I think about 20 something clients in it.” [IT Specialist]*

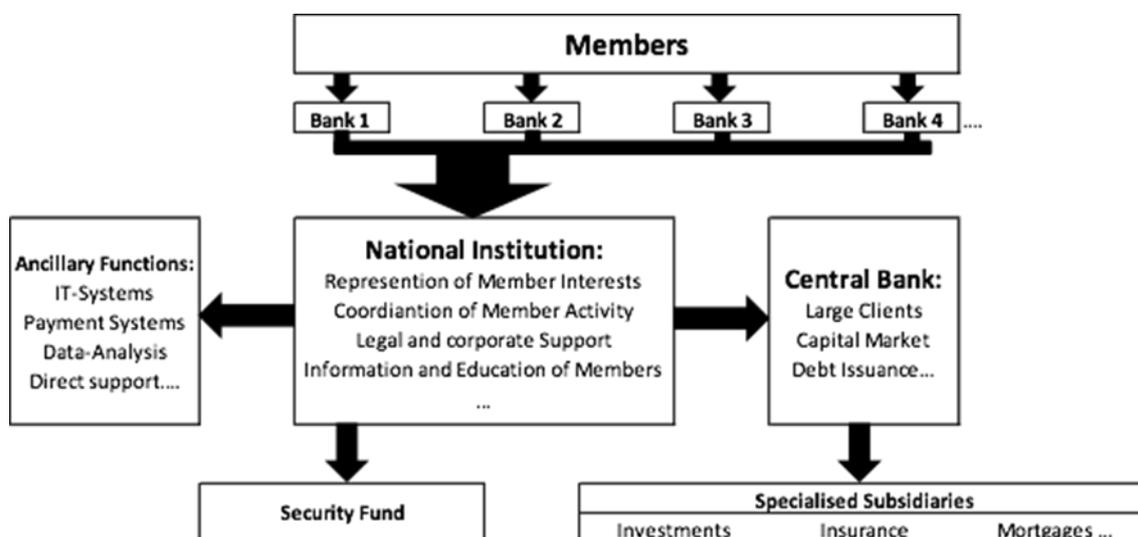
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<sup>15</sup> See, for example, NEF (2014: 2ff.) Co-operative banks: International evidence. London: New Economics Foundation.

<sup>16</sup> For simplicity, we will continue using the terminology ‘mutual’ instead of ‘cooperative’

These mutual systems are centralised and activities of member banks and central institutions are coordinated and governed through democratic processes. Customer members<sup>17</sup> own member banks, which in turn collectively own the central institutions via the national institutions. The number of central organisations serving the member banks by offering access to centralised services and products differs across these international examples but often include a central bank providing access to capital markets, treasury functions etc.; ancillary functions responsible for IT and payment systems and subsidiaries specialising in specific product markets, such as mortgages, investment management and insurance (see Fig.1).

Figure 1: Schematic Overview of Cooperative Systems



These centralised and coordinated systems of mutual finance perform well within their national institutional environment; however, as there is no actual data available for comparison, it is impossible to make judgements as to whether this performance is better than in an alternative scenario in which mutuals would have operated more independently. However, the near-collapse and subsequent fire-sale of the Co-operative Bank in the UK suggests that independently operating cooperative banks may not necessarily perform better. As suggested by NEF, some commentators are concerned about central institutions becoming dominant and too intertwined with the market (Nef 2014: 2, 14)<sup>18</sup>. Yet at the same time, these cooperative systems have also proven as resistant to crisis and continued lending to SMEs and private customers when shareholder-owned banks significantly scaled back their lending activity<sup>19</sup>.

However, other international examples of collaboration have managed to do so without the centralisation and institutional attachment seen in above examples. Within the mutual insurance market, the case of the French SGAM company signifies the potential to regroup mutual insurers employing collaborative principles. Facing stricter regulatory requirements, French mutual insurers felt the need to regroup but this was difficult given the lack of options before 2001. The creation of the SGAM in 2001 enables mutual companies in the broader sense (PLCs are excluded) to establish links under a legal structure without surrendering their independence during that process.

<sup>17</sup> Unlike in the UK, to become a member, some of these national systems require customers to invest in the local bank through purchases of shares (often limited to a specific number and restricting voting rights to one per member)

<sup>18</sup> NEF (2014) Co-operative banks: International evidence. London: New Economics Foundation.

<sup>19</sup> For an interesting reflection on the UK, see <http://www.thenews.coop/93859/news/general/what-lessons-can-the-uk-learn-from-germanys-co-operative-banking-sector/>

In Australia, CUSCAL's prime objective is the provision of principal payment, transaction and treasury services to all market participants (with a particular focus on smaller and often mutually-owned banks) within Australia. In doing so, it stimulates competition within the Australian banking sector by reducing barriers to entry linked to access to infrastructures. In some ways it is similar to the central banks in Germany, the Netherlands and other centralised cooperative systems; but crucially, this system is demand based and allows its institutional customers to operate completely independent of each other.

#### *Mutual collaboration in the UK*

Compared internationally, collaborations and initiatives to co-produce and co-organise are limited in the UK: most are tactical arrangements between two or more parties and not available to the sector as a whole. Moreover, these approaches, are often ad-hoc or problem-oriented, but not strategically aimed at producing a more collectively organised financial mutual sector in the UK.

Skipton Building Society has historically invested considerable resources in its internal processes and given access to other societies for a fee, which later on resulted in the take-over of a main stake of 80% in Mutual One, with other (smaller) building societies retaining a small stake. However, these types of arrangements are subject to the terms and conditions of the contract, thus collaboration is limited and collaboration quickly takes on the form of service provision by one dominant party, where other stakeholders have limited capacity to influence developments. Moreover, they are to some extent dependent on a large mutual's, in this case Skipton's, interest to continue this type of service.

*"[...] where I would like to see [...collaboration...] is societies sharing a common IT platform, a genuinely shared platform. Because we are all doing basically the same things just in slightly different ways. And that would strip out a huge amount of cost."  
{Financial Mutual Chief Executive}*

A second example illustrating tactical arrangements between firms can be found in the agreement between Nationwide Building Society and Liverpool Victoria (LV=) to sell LV='s car insurance product through Nationwide branches. This example goes beyond traditional white-label products, as Nationwide's scale made it financially viable to tailor the product and distribution to the need of both parties. These arm's-length agreements are mutually beneficial as they can, in this case, improve product offerings for one party and increase sales volume for the other. Moreover, the cultural proximity between two mutual providers can reduce the number of problems arising in the process. However, collaboration may be limited in cases in which scale limitations restrict the extent to which the product can be altered to the needs of the purchasing party; thus, commercial viability is at the centre of these agreements.

Despite the lack of central structures to coordinate activities, Mutual Vision (MV) highlights that initiatives to share resources and costs across a number of mutuals can be successful in UK. MV is a mutually-owned provider of back office software to building societies. Instead of having a more traditional commercial-client relationship, building societies and MV collaborate to establish requirements for software updates collectively and costs are split across all participating organisations. MV's success can be attributed to two main aspects: 1) its services offering provides building societies with tailored software at low cost, thus inserting a financial incentive; and 2) its service provision may be considered superior to other providers because its processes are not sales-oriented but are customer-focused, meaning that resources are invested into service delivery and not retained as profits. This collaboration is jointly owned and financed by a number of mutuals and

the horizon for the investment is distinctly long-term. Moreover, the mutually owned organisation, MV, has scope to coordinate the requirements of the individual societies and can act on behalf of specific societies if their requirements are for the purposes of the specific society only. This means that there are clear criteria that guide decision-making process as to how resources are best spent to the benefit of all member organisations.

Moreover, it appears that the idea of centralising some function appears to have gathered traction in the credit unions sector. Credit unions, small scale local providers of financial services, have recently begun to foster strategic engagement with financial support from government. The Cornerstone Project, initiated by the credit union trade association ABCUL, offers a strategic and long-term engagement in creating IT platforms and ancillary services that can be shared across the sector, thus reducing duplication and offering, arguably, fit-for-purpose product and service solutions that meet credit unions' needs. The aim here is to enhance the efficiency of credit unions and to reduce costs in the long-term. Still, this step is not accepted by all members of the credit union sector as the right way forward at this moment in time, with only a quarter of ABCUL members participating to date. However, as with building societies and mutual insurers, credit unions value their independence, and, therefore, additional credit unions may be encouraged to join this strategic movement once evidence illustrating the material advantages is available.

Overall, the credit union expansion project as a whole provides practical lessons as to how collaboration can feature at the level of the sector and not just between a few parties. These include:

- 1) Sector-wide collaboration cannot be developed without a strategic vision and a long-term (5 years+) horizon. Short-term solutions to problems provide only limited potential for a more pronounced arrangement to share costs, risks and rewards across the sector;
- 2) Members are understandably sceptical towards change, but at the same time, not all members of the sector need to buy into the idea of collaboration from the beginning. Innovations may be generated by a smaller cohort of cross sector collaborators who maintain an openness to include more organisations at successive stages. Indeed, initiatives will be judged by their success and may create more demand from within the sector in the longer term.

## 5. How can collaboration be successfully developed in the UK Financial Mutual sector?

Retrospectively, the limited success of collaborations across the financial mutual sector in the UK can be made sense of, at least in part, by looking at historical developments. Despite having played in major role historically in enabling ordinary citizen to become homeowners and dominating the mortgage market until the mid-1980s, the UK's regulatory environment increasingly focused on the individual organisation as an object to be regulated, and preferred Plc ownership while government policy favoured competition policy- and market-based solutions. The challenges borne from this change of policy since the 1986 *Big Bang*, meant that building societies focused on adapting to the new market pressures. Yet as suggested in section 1, these fundamental shifts in the retail finance marketplace and the accompanied transformation of its constituent players has now slowed down.

At the same time, these long term changes in how financial mutuals operate in the marketplace may well have cultural implications, which in turn may act as barriers to collaboration between financial mutuals. Management and customers of financial mutuals may be keen to preserve operational independence of their mutual. There may also be trust issues between management of different financial mutuals as to their motives for collaboration, for example, free rider problems which would suggest that some organisations would invest more resources than others but benefits are spread evenly.

Discussions with senior management support some of these concerns but have also produced a series of alternative reasons as to why collaboration has not yet become a widespread phenomenon.

1. The idea of collaboration between financial mutuals have been the subject of research and debate in the past yielding little action;
2. Where attempts to collaborate were made, they have either failed or not yielded the promised efficiency gains;
3. There are more general questions as to whether efficiencies can be realised for small scale institutions given the cost of resources spent on collaboration;
4. Centralisation and sharing of services could align mutuals and drive further consolidation;
5. Senior executives may find collaboration to be against their interest as it potentially means giving up, or sharing, some control and/or power;
6. Regulatory, legislative and competition policy constraints on collaboration;
7. Limited political appetite to transform the financial mutuals sector in the UK.

Clearly, these barriers to collaboration explain why there have been limited developments in this area. However, interviewees have also suggested that benefits are apparent for a range of functions, including back office services, product development and joint IT platforms. Moreover, there is at least an awareness that collaboration is successfully established in other national contexts, yet in many cases, details of why and how this is the case are limited.

Those interviewees who signalled a general openness to collaboration suggested that the best way forward was through a 'semi-autonomous' third party as this would improve coordination and communication between stakeholders and would limit resource commitments from mutuals. Interestingly, there was no real preference as to whether such a third party itself should be a mutual organisation or not, suggesting that mutual values are considered second-order to financial and efficiency benefits. Still, one of the most successful examples of collaboration between financial mutuals in the UK is Mutual Vision which was owned by building societies.

The UK Financial Mutuals sector would not be alone in considering the strategic potential of collaboration. Increasingly, we are living in a 'shared-power, no-one-wholly-in-charge world'<sup>20</sup> where multiple actors share responsibility for producing outcomes of benefit to each. For example, public value creation is now dependent upon networked or collaborative governance of multiple agencies including government, public sector organisations, private enterprises, civil society groups and communities. Furthermore, private value creation is inextricably linked to corporate involvement in public value creation, particularly in arenas which are considered to be of public interest, such as the provision of inclusive financial services. This means that competition is not the only impulse driving economic and social relations.

The lessons we can draw from the short review of barriers to collaboration in the UK are:

- A series of cultural barriers, linked to the loss of control, trust and independence;
- An adverse institutional setting with limited actual support for mutuals (despite public rhetoric to the contrary) and a competition-led policy focus;
- A history of challenging changes to market conditions increasing competition from actors within and outside the financial mutual sector.

In light of these concerns and potential barriers, it seems reasonable to conclude that any meaningful development of collaborative practices in the UK's financial mutual sector would require a long-term horizon and an orchestrator leading change, for example the trade associations. Some of these barriers can be resolved by the financial mutuals themselves; others may require additional support from regulators and government, in particular with respect to regulatory and legislative change needed to accommodate a more coordinated collaborative future for the financial mutual sector.

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<sup>20</sup> Crosby, B. C. & Bryson, J. M. (2010) Integrative leadership and the creation and maintenance of cross-sector collaborations. *The Leadership Quarterly*, 21(2): 211-230.

## **About the authors**

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Ruth is a Research Fellow of the Centre for Mutual & Employee-owned Business, University of Oxford. She advises public and private sector organisations on how to apply the values and principles of mutuality to governance, leadership and organisational change. For the Saad Business School, she established the 'Mutuality in Principle' research partnership with Mars Incorporated where she has worked on applying mutuality to a model of supply chain fairness. She was awarded a John Fell grant to examine mutualisation and integrated healthcare in the NHS. Ruth also researches prospects for meaningful work under different forms of ownership. She is lead editor for the Oxford Handbook of Meaningful Work, and co-editor of a Journal of Management Studies Special Issue on Meaningful Work. Her book, 'Meaningful Work and Workplace Democracy: a philosophy of work and a politics of meaningfulness' was being published by Palgrave Macmillan.

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## **About the Oxford Centre for Mutual and Employee-owned Business**

The Centre for Mutual and Employee-owned Business at the University of Oxford is Britain's leading academic research centre dedicated to the study of mutuality and alternative corporate forms. It is directed by Professor Jonathan Michie and supported by a number of distinguished associates. The Centre provides a range of services for the mutual and employee-owned sector, including academic research, leadership education, consultancy and public policy.