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Human agency in management accounting change

van der Steen, M.P.

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4 The cooperative split: the Rabobank in the Netherlands

4.1 Introduction

In his Raiffeisen speech in 1998, former Dutch Prime-minister Prof. Dr. Ruud Lubbers discussed his concern over the tensions between the ongoing globalisation of Western societies and the legitimacy of cooperation, collaboration and support for the collective. He suggested that globalisation leads to ‘economisation’ of Western society. By this he meant that:

‘Corrosion of the quality of life by the forces of the economy alone is another aspect of globalisation in her primary form. I aim at the increasing emphasis on the economic dimension of life, as if all that is economically measurable is valuable and needs to be maximised. This has led to a strong dissemination and growth of market-type of thought’.

If economic discourse has become one of the leading sources of legitimacy for organisations and individuals, then one could infer that organisations that appeal specifically to this economic dimension will gain legitimacy as they appeal directly to what is considered “true” and “right”, at the expense of organisations that have traditionally focussed on other dimensions. An example of the latter might be cooperative organisations, that appeal to more than economic value judgements, and often consider their members’ well being as an important objective.

One of the Netherlands’ most prestigious cooperative organisations is the Rabobank. Being more than 100 years old, a market leader on many fronts, and having a balance sheet exceeding € 403 billion in 2003, one might certainly say that this bank has earned public confidence.

However, currently the Rabobank faces increasing pressures in terms of productivity and profitability. Although it makes a handsome profit, the management feels that profits need to be increased to successfully compete with other major banks in the Netherlands. Calls for greater efficiency and effectiveness often come from investors who require better return on their investment. Yet, the Rabobank is a cooperative, and as such, it does not have investors as its owners. Its owners are its members who do not necessarily have the same interest in the organisation as investors in the traditional sense. From a historical perspective, the cooperative’s *raison d’être* has been to serve the best interests of members, who were severely hampered by the absence of an effective and efficient capital market.

4. The cooperative split

But customers are becoming less and less loyal and more individualistic. Although the Rabobank did restructure its cooperative governance structure to give local banks more influence over decision-making, the mere notion of the need for modernisation of the cooperative exposes one of the Achilles heels of the cooperative Rabobank. On the one hand, it realises that much of its success can be attributed to the fact that it has organised itself as a cooperative, while on the other, it has some difficulty in exploiting its structure to obtain economic benefits. This apparent contradiction in cooperation and efficiency is sometimes referred to as ‘the cooperative split’. In light of the discussions that are being held throughout the organisation on the nature of cooperative identity of the bank, the Rabobank is at a crossroads. The reason for its existence has become less obvious in recent decades as cheap capital has become more accessible for all. The bank now finds itself in the difficult position of explaining the relevance of its cooperative identity in an era of individualisation and market transactions. The bank feels compelled to show its legitimacy in an era where cooperation in itself no longer holds moral sway. In terms of Suchman (1995), the bank feels increasing pressures from shifting sources of legitimacy. This leads to a widening gap between the structural features of the bank and the sense of purpose of the cooperative and the legitimacy claims it can make in an environment where free market arguments win at the expense of logics valuing cooperation and solidarity.

The purpose of this chapter is threefold: To provide the reader with necessary information on the Rabobank. Secondly, to explain why the cooperative Rabobank is increasingly concerned with efficiency enhancing concepts and techniques. Thirdly, to inform the reader of the paradox of a cooperative in a highly developed capital market: how does a cooperative bank combine responsibilities towards its members with efficiency and customer profitability? This paradox, ‘the cooperative split’, is important to this thesis, as the discussion of the cooperative was a central issue for member banks during the interviews.

4.2 The Rabobank

The Rabobank organisation is one of the top three banks in the Netherlands with a balance sheet totalling 403 billion euros and some 57.000 employees in 2003. Its extensive network of branches (1378 at the end of 2003) and its direct focus on the agricultural community are traditionally its strong characteristics. Moreover, it traditionally has had a very strong credit rating, reflected in its triple A status; as rated by all three major rating agencies. This has been a continuing source of pride for the Rabobank, as it is the only bank in the Netherlands that is triple A rated. It is especially well represented in the private mortgages market as well as in the agricultural and dairy and foods industry.

The element that distinguishes the Rabobank most from other major banks in the Netherlands today is that it is a cooperative. Within this ownership structure autonomous local banks are the members of the cooperative. These member banks also have members

of their own, in the form of private persons from the local community. A number of these members also form the Board of each of the local banks. As such, the Rabobank has always been a democracy with three layers:

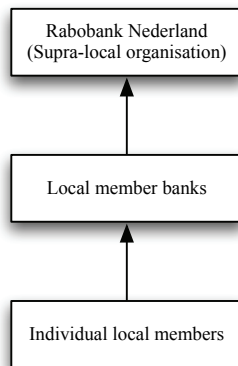


Figure 4-1: The Rabobank democracy

Decision making and change within this democracy has always been a time consuming process (some have named the bank a Mammoth tanker, due to its inability to change quickly). Since local banks are essentially autonomous, part of the decision-making involves convincing and persuading local banks.

Formally, the member banks are independent and have full decision autonomy, except for matters related to the supervisory role of the Dutch Central Bank, for which they have delegated responsibility to the supra-local organisation, Rabobank Nederland. This includes local intervention when solvency falls below legally stipulated levels, or in cases of gross mismanagement. But in most instances, the local banks are formally autonomous. They are organised in the “Centrale Kring Vergadering”, translated: Central Circle Meeting (CKV), which now has decision authority over all strategic matters concerning the Rabobank Group. The bank does not have stockholders and as such it does not pay out dividends. And, however time consuming its decision-making may have been, the bank has been very successful in the past.

4.3 The traditional cooperative

This section will describe why the cooperative Rabobank developed to become one of the largest banks in the Netherlands. This background serves to provide an understanding of the history of the Rabobank and its current position.

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4.3.1 *Self-interest as founding factor*

The Rabobank organisation itself can be traced back to 1898 when 46 local credit cooperatives were merged into two bank-like structures: the general Raiffeisenbank based in Utrecht, and the Catholic Boerenleenbank in Eindhoven. Both were primarily aimed at the agricultural community, but their roots differed to some extent. The Eindhoven Credit Central benefited greatly from the strong Catholic infrastructure and value system, while the Utrecht Central was an example of the application of the German concept of credit cooperative along the lines set by Wilhelm Raiffeisen, one of the founding fathers of the cooperative movement. While ideologically different, their objectives were the same: the emancipation of people to reduce inequalities. The basic idea behind these cooperatives was to reduce the dependency of local farmers on high-priced credit providers. The cooperation between the farmers in borrowing and lending money soon became known as the cooperative bank.

The basis of the cooperative bank was the savings of its members. ‘Without a steady growth of these savings, a truly prosperous development of the agricultural credit provision is not viable. Experience has taught us that the deposits display stability to such extent that they consist of effective means for the provision of specific agricultural capital needs’ (Visser & Haverkamp, 1959). The deposits were primarily used for loans to members; all that were not directly needed were deposited at the supra-local organisations: the central organisations, in respectively Eindhoven or Utrecht, to facilitate easy distribution between member banks.

In its early days, the cooperative was highly successful in attracting customers. The credit cooperatives achieved this for a number of reasons (Sluyterman *et al.*, 1998): First, agricultural communities had little choice of lenders. Usually, arrangements could be made to purchase land, as notaries would facilitate various forms of borrowing and lending. But for operational financing, farmers had to deal with their suppliers who would ask for exceptionally high interest rates, not only directly, but also indirectly, such as through compulsory minimum purchases. All in all, access to the capital markets was either unavailable or relatively expensive. Economic necessity thus provided a clear motive for the formation of credit cooperatives. Secondly, the cooperatives quickly became successful because of the high interest rates they offered on savings, while being able to ask for competitive rates on borrowings. They were able to do this because of Raiffeisen’s philosophy of low-cost management. This consisted of the idea that the management of deposits had to be done at zero or very low costs. So in the first half of the twentieth century, it was often the secretary of the town council who would set up office at his home or at the town hall. Although some costs were unavoidable, the cooperatives could be characterised as having extremely lean cost structures. They were then able to return these savings to their members/clients through competitive rates.

As indicated earlier, the Rabobank is a combination of two cooperatives: the secular Cooperative Raiffeisen bank and the Catholic Boerenleenbank. Both embraced the basics of cooperative banking. Both appealed to their respective communities by offering economic benefits that were not otherwise available to them at that time. The cooperatives thus succeeded in gathering support through the rapid creation of a large customer base, mostly from the agricultural community. One may conclude that one of the reasons for the foundation of the Rabobank, the provision of material benefit, quickly proved to be the primary source of legitimacy in those first decades. The economies of exchange dictated the success of the cooperative. It was simply the cheapest and, sometimes, the only source of capital. The clearest indicator of the importance of exchange for the cooperative banks is indicated below. Figure 4-2 depicts the growth of the cooperative banks in relation to the other major Dutch banks.

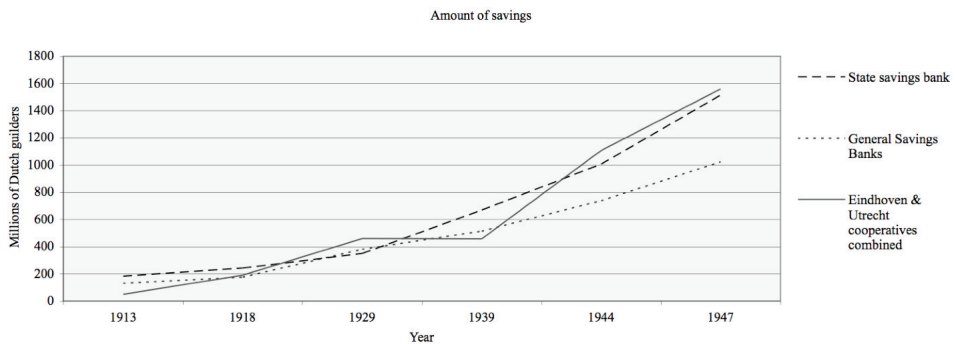


Figure 4-2: Development of savings portfolio for different types of Dutch banks (data from: Visser & Haverkamp, 1959)

Yet, the economies of exchange worked in two ways. Members of the cooperatives were the owners and the customers were members. Although cooperatives have recently been plagued by disinterest on the part of their members, the first fifty years could be characterised by some member involvement. People would voluntarily hold office in their farms and distinguished members of the community would be actively involved in the decision-making processes of the bank. The two credit cooperatives thrived in the first fifty years of their existence, because of their extremely favourable cost structure. Yet, at the same time, being a member of the cooperative held obligations, which were taken quite seriously. Through this mutual dependency, the cooperatives remained intact for an extended period of time.

However, the mere need for open capital markets does not explain why many hundreds of cooperative banks were founded at the end of the nineteenth and the start of the twentieth

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centuries (at its peak more than 1300 local cooperatives existed in the Netherlands alone). The need for local banks was already present for many years. Yet, it was only after the foundation of the *Nederlandsche Boerenbond* (NBB), governed mainly by the Catholic elite of that day, that the conditions were created for successful cooperative banking. Members of the NBB founded many local banks using the infrastructure of the NBB. One of them stated: ‘the purpose of the savings and loans bank is to ban usury, to assist the agricultural population, but also to encourage thrift, charity, diligence and moderation.’ (Sluyterman, 1998, p. 25). This held in particular for the southern cooperatives, which were rooted in the Catholic traditions of that era. The cooperatives located in the north of the Netherlands were based on the ideas of Raiffeisen, who was not Catholic, but wanted the same emancipation of the agricultural population. All in all, the mere demand for specific services was clearly not enough for the Rabobank to exist in the first place. The presence of wider institutional arrangements created the conditions for the emergence of the new cooperatives. These newly formed cooperatives were able to use the infrastructure of the NBB and other organisations, through which they could give form to the emancipation of farmers.

In the early stages of the cooperative movement, the credit cooperatives based in Eindhoven and Utrecht obtained very little support from the established financial institutions, such as the Dutch Central Bank. For example, the Dutch Central Bank denied the Eindhoven cooperative access to its money market instruments. Moreover, the Central Bank explicitly expressed its unease with the low rates that the cooperatives were asking (Sluyterman, 1998). The credit cooperatives were a product of local concerns. As such, help was provided locally: influential landowners and leaders in the different municipalities would guarantee the debt positions of the banks with their personal capital.

In all, the predecessors of the Rabobank provided services that were unavailable elsewhere. Supported by strong local roots and the available infrastructure (e.g. as provided by the NBB), the cooperatives succeeded in securing a large market share in specific segments of the local economies. However, after the Second World War, the two cooperatives continued to grow at a somewhat more modest rate, because of increasing costs and because they were now more directly competing with each other. In 1970, the ‘*Gezamenlijk Bericht*’ (Common Report) announced a merger between the Utrecht and the Eindhoven cooperatives. The considerations surrounding the merger included the growing mutual competition, increasing concentration of cooperative businesses and associated growth of lendings and borrowings, and improving branch policy. The resulting organisation was named the Rabobank (RAiffeisen-BOerenleenbank), with two headoffices, one in Eindhoven and one in Utrecht.

4.4 The current position of the Rabobank

Organisations can claim legitimacy in the wider society by adhering to the rules and norms that are valued in that society and, more specifically, by specific institutions in society. An alignment between the logic of the institutions and that of the organisation is indispensable for organisations that want to underscore their legitimate position to those groups.

The Rabobank addresses legitimacy issues quite directly in describing its position in society: ‘we open up our minds to the opinions of those for whom our services are meaningful. Customers that shape their commitment to the bank in a membership obtain a say in the direction of the bank and in the manner in which we contribute to realising the ambitions of these customers’ (Rabobank Group, Annual Responsibility and Sustainability Report, 2002). It has generally been accepted within the Rabobank Group that the primary *raison d’être* for the Group is the generation of customer value. But the Group as a whole is facing increasing pressures to keep up with the other major Dutch banks in terms of financial performance. This makes the following comment relevant: ‘Nonprofits are less likely than proprietary firms to be oligopolists, less likely to be highly competitive, *and more likely to depend upon institutional as opposed to technical sources of legitimacy*’ (DiMaggio, 1991, p. 288, emphasis added). The source of legitimacy of business organisations is relatively stable. Efficiency as a limiting condition gives direction to the actions of business organisations. Non-profit organisations, however, are more dependent upon different external constituents, whose preferences are more politically determined. The Rabobank can be positioned between profit and non-profit organisations. It needs to act commercially and in a profit oriented way, but it is also accountable to the members who do not always agree with efficiency enhancing measures to improve the financial results of their bank.

Grit argued that that the advance of the free market and the spread of neo-liberalism are features of the current modernisation of society. Neo-liberalism has a positive attitude towards the free market and an explicit emphasis on individual responsibility (Grit, 2000, pp. 5-11). However, both of these elements are undermining the traditional sources of legitimacy of the Rabobank. A cooperative operates best in the absence of perfect markets as well as in settings with a premium placed on cooperation. Both of which are under pressure through ongoing modernisation of society.

The Rabobank used to be firmly and intimately surrounded by several formal and informal institutions that provided it with a legitimate position. Yet, as the economic area in society increases its domain at the expense of culture, solidarity and cooperation, it becomes more challenging for the bank to maintain the legitimacy of its cooperative structure and the resulting choices it makes. The next section describes some features of the Rabobank’s relationship with the current environment and indicates that the bank

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wants to change to adapt to this environment, while at the same time, attempting to maintain its cooperative roots.

4.4.1 Fierce competition

Access to the capital markets is now assured for the traditional customers of the Rabobank. No longer can one speak of the systematic exclusion of specific agricultural groups. Thus in customers' choice of a bank, *availability* of services is less of an issue. Products have become comparable across the range, as the All-Finanz strategy has been adopted by all the main Dutch banks. In a world with comparable products, consumers are becoming more price sensitive, but the traditional cost advantage of the Rabobank has disappeared. Consider Figure 4-3:

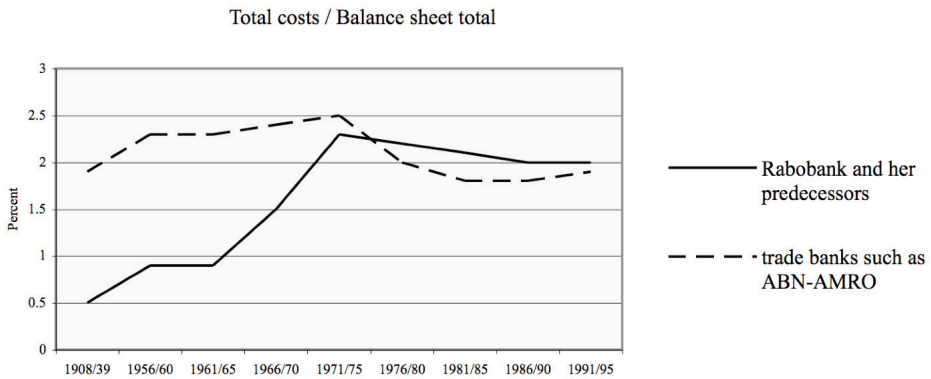


Figure 4-3: Cost ratio to balance sheet total (source data: Sluyterman *et al.*, 1998)

The figure demonstrates the closer alignment of cost structures between the Rabobank and the trade banks which include ABN-AMRO, one of its main competitors. It shows that one of the pillars of its earlier competitive advantage, its cost structure, is no longer significantly different to its competitors. Therefore, it can not offer rates that are substantially lower than its competitors. However, the Rabobank does maintain a strong position on other fronts. By its charter, it still exercises a great deal of influence over local agricultural communities. The agricultural crises of recent years have allowed the Rabobank to re-enforce its commitment to the agricultural community. However, according to Figure 4-4, the total amount of farms has steadily declined in the last fifty years, thereby reducing the bank's specific consumer base.

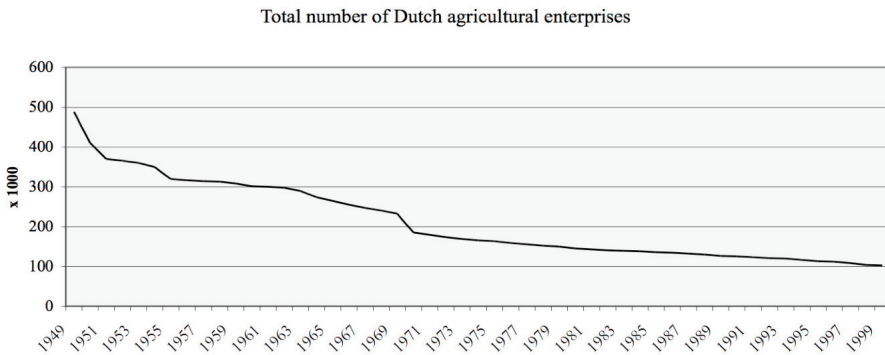


Figure 4-4: Total number of agricultural enterprises in the Netherlands (source: Statline, CBS)

However, this decline in the number of agricultural enterprises is not as dramatic as it seems, as the remaining farms have increased in size and have become more capital intensive. Although the Rabobank cannot distinguish itself as it used to, being *the only bank* for farmers, it still has a close relation with the agricultural community. Moreover, the local embedding of the Rabobank in smaller municipalities is still second to none. It attempts to rejuvenate its cooperative nature by appealing to issues that remain relevant (both nationally and locally) in the current society. One of these issues is *durability*.

4.4.2 *Durability as the right thing to do*

The Rabobank increasingly emphasises the manner in which it performs business. Especially in times of agricultural crises, it presents itself as partner to the afflicted farmers. Although, critics may argue that this is an example of decoupling (Powel & DiMaggio, 1991; the bank may present itself as socially engaged, while having no internal structures to back this up), it is undeniably an ongoing source of pride for many employees at the Rabobank. Besides an emphasis on its commitment to customers experiencing financial problems, the bank also stresses durability of conduct. It states: ‘Durable entrepreneurship and responsible entrepreneurship go hand in hand. In both cases, it is about the balance between people, environment and resources, about social cohesion, dialogue and openness’ (Rabobank Group, Annual Responsibility and Sustainability Report, 2002).

Because of the autonomous nature of member banks, they can deal with these issues in quite different ways. Some member banks encourage employees to engage in voluntary

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community services, or donate money to environmental protection agencies. But apart from local efforts, that differ in intensity, depending of the local management's stance on durability, the supra-local Rabobank Nederland uses its position in the financial markets to facilitate projects that are related to durability. Examples from 2002 are: the financing of the first public-private collaboration project in durable water management, the creation of the Greenhouse of the Future, the implementation of Global Compact of the United Nations (nine principles related to human rights, labour rights, and environmental protection efforts, aimed at a more just and social globalisation) and the creation of the first specific purpose account (the Pingi account, Pingi is short for Penguin, the proceedings of which are used for the improvement of animal houses in the Emmen Zoo). The bank is also becoming more explicit in the manner in which it wants to be durable; not only in its own business conduct, but also in its support of others.

As noted above, in its earlier days, prominent figures in the municipality functioned as the personification of the qualities of the bank. However, this has declined somewhat in importance in recent years. Member banks still attempt to invite municipal leaders to join their decision-making bodies. But the image of the bank is increasingly determined nationally than locally, because of national advertising and the influence that the supra-local organisation has on policies. Nevertheless, the Directors of the member banks are still a public figure, particularly in smaller municipalities. Although this role of the Director is different between the various member banks, it remains a local personification of many member banks.

4.4.3 *The inefficient cooperative*

As indicated earlier, the Rabobank was born out of economic and social necessity. But with the emancipation of its members, the banks advantageous position diminished. But it still has its identity as a cooperative, for which new objectives have to be found. It seeks to express its unique identity and its legitimate role in Dutch society through: (1) increased member contacts and members' influence; (2) the local Director as the continuing personification of the bank in the local community; (3) recognition of favourable opinions about the concept of a cooperative, that could cause prospective customers to engage in long-term relationships with the bank; (4) confidence in its triple A rating; and (5) explicit communication of the meaning of being a cooperative bank in a commercial marketplace, including an emphasis on durability. However, economically speaking, the bank has come to resemble its competitors in terms of cost structure and profitability. Some say that the Rabobank has become somewhat complacent and so cost inefficient that, although it does not pay dividends, it is still unable to provide its services at lower rates than its competitors. The material benefit from having no shareholders is not translated into lower rates for members; rather it is used to maintain inefficiencies. The Rabobank has long been seen as a lifetime employer, with some of the best benefits in its sector. The manager of one bank remarked: *'people do not see the fact that they must*

contribute to the bank in order to earn their salaries. To some of them, the salaries they require and the effort they put in the earning power of the bank, those are two completely different things to them. For this bank, I think it is a good idea to make people realise that they have to give something in return for their salaries.'

All in all, the Group realises that the cooperative nature of the bank has led to an absence of stringent financial and behavioural controls. As being a cooperative was the 'natural' choice and since it was doing exceptionally well, it has had little incentive to maximise efficiency. Although it is recognised that the cooperative structure continues to be its main competitive advantage, the absence of shareholders is also seen to maintain inefficiencies, instead of providing tangible benefits to members. The result has been that the full potential of being a cooperative has not been exploited, and the bank has not (yet) succeeded in differentiating itself from its competitors through excellent member service (the traditional forte of the cooperative). Rather, it has allowed itself to become similar to its competitors in many respects, as it does not have the economic leverage (because of its ongoing inefficiencies) to turn the absence of shareholders into material benefit for members. This realisation has caused an increased focus on efficiency and financial results within the Rabobank over recent decades. The notions of efficiency can still be fitted within the cooperative ideas, however: the argument is basically that a leaner and meaner organisation generates more residual income that can be used for the benefit of the members and the Group. Since residual income and efficient operations can be equated with the good of the cooperative cause, the path has been cleared for an explicit focus on efficiency and a results orientation. In this light, a program such as Results Oriented Management became essential. It must be remarked that not all member banks were convinced of the necessity for this increased focus on efficiency and financial results, and the various member banks have different views on these topics. However, to the majority of the member banks and to Rabobank Nederland, this increased focus on results and operational efficiency is necessary to have the resources necessary to give meaning to the notion of Customer Value¹. Before turning to an explanation of Results Oriented Management, the next section will explain the structure of a typical member bank. Although member banks are formally autonomous, they have quite comparable structures.

4.5 Structure of a typical local member bank

A member bank is typically organised in a number of departments or segments, as they are referred to at the Rabobank. These segments are:

- Client Advice: this is the segment for general customer service at the counter. The segment includes the personnel who provide over-the-counter services. This generally

¹ Customer value is one of the perspectives of the proprietary Balanced Scorecard of the Rabobank. The bank operates under the assumption that the provision of Customer Value is the ultimate objective for the cooperative. The other perspectives (Financial Stability and Employee Value) are enablers of this objective.

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involves money transactions and administrative formalities. To most customers, the first face they see when entering the bank hall is that of an employee of Client Advice.

- Financial Advice: This segment organises advisors specifically for the more wealthy customers (some banks also have included their mortgages operation as well as their investment services). These employees are specialists and are often responsible for their own portfolio of customers.

- Business Advice and Corporate Clients: This segment is responsible for the provision of services to business clients. Business Advice is mostly geared towards SME's (small and medium sized enterprises), while Corporate Clients is a centralised service for larger corporations. To capture these activities under one name, this thesis refers to this segment as Corporate Clients.

- Business Administration: this segment is responsible for the primary internal operations, such as risk management, facilities management and financial control.

Each segment is led by a manager, who is typically part of the management team of the member bank. The General Director, who is the face of the bank to the outside world, heads this management team. The governance of a member bank also includes a compliance board ("Raad van Toezicht") and an executive board ("Raad van Bestuur"), to whom the General Director is accountable. These boards are made up of local members, individuals who have an interest in being an active member of the cooperative. A general members' assembly is held once a year, or when extraordinary events (such as a possible merger) warrant more frequent meetings. Rabobank Nederland regards the General Director as responsible for the member bank. Moreover, the General Director takes part in regional circle meetings and sometimes in the National Central Circle Meeting (CKV), which is the primary governing body of the Rabobank Group.

Over the years, member banks have had a somewhat ambiguous relationship with the supra-local Rabobank Nederland. On the one hand, they have recognised the role of Rabobank Nederland as the representative of the collective of member banks. On the other hand, they have had many concerns about the perceived interference of Rabobank Nederland in local affairs. These concerns have led to ongoing tensions over the member banks' autonomy and the degree of service provision from Rabobank Nederland. The more services Rabobank Nederland has performed centrally, the more difficult it has become for the member banks to remain autonomous in practice. E.g. a centrally maintained IT infrastructure requires standardisation across all member banks. This effectively means that member banks surrendered their autonomy with regards to the selection of IT suppliers. Furthermore over recent years, a number of changes have been introduced in the governance structure of the Rabobank. These have led to (1) the collective of member banks (through the CKV) having more influence over the strategic direction of the Rabobank Group and consequently (2) a somewhat smaller role for Rabobank Nederland; this has led to (3) more pressures on member banks to comply with policies and programs approved by the CKV. As such, the individual member banks are more likely to be limited to the policies and programs that have passed through the

various committees of the member banks that represent the collective. One of the approved programs is Results Oriented Management, a program requested by the collective of member banks and developed by Rabobank Nederland.

4.6 Results Oriented Management at member banks

The national Central Circle Meeting (CKV) had requested Rabobank Nederland to develop the ROM program. The program is essentially a way to induce the member banks to be more aware of the economic realities in which they operate. Basically, the program uses the Rabobank management model as point of departure. This management model is an adapted version of the NKM model (Nederlands Instituut Kwaliteit), an application of the EFQM model (European Foundation for Quality). The Rabobank management model is depicted as follows:

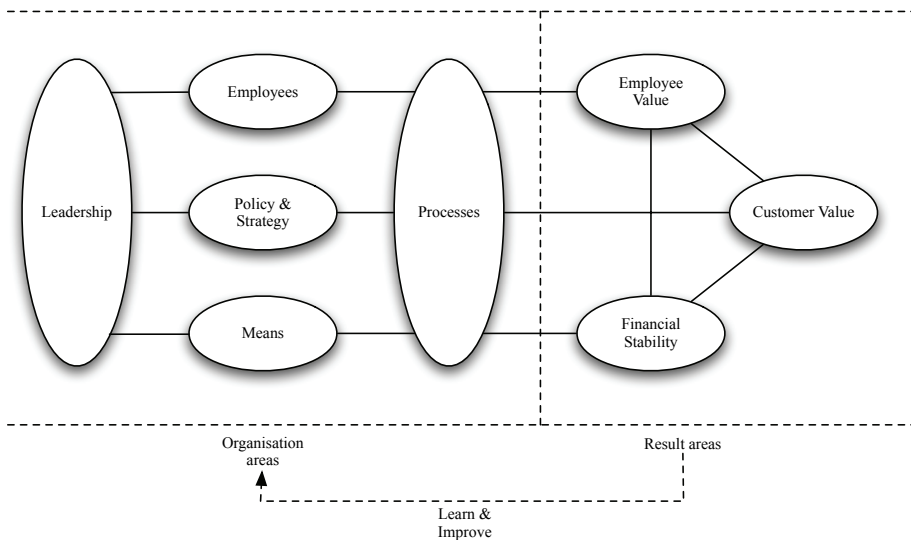


Figure 4-5: The Rabobank Management Model (source: Management Manual Results Oriented Management)

The model connects five organisational areas with three result areas. The idea is that operations in the organisational areas have an influence on the different result areas. The left-hand side of the model is also referred to as the quality of the organisation. The right-hand side (the result areas) are similar to the three perspective of the Balanced Scorecard in use at the Rabobank, the so-called Compasses. The basic idea is that the bank needs to

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perform well on the five organisation areas to be able to show better results on the three perspectives of the Compasses. Financial Stability is seen as the condition needed to achieve high Customer Value. Employee Value also reflects a necessary condition for Customer Value, which ultimately embodies the cooperative purpose of the organisation. The program Results Oriented Management itself consists of a number of steps:

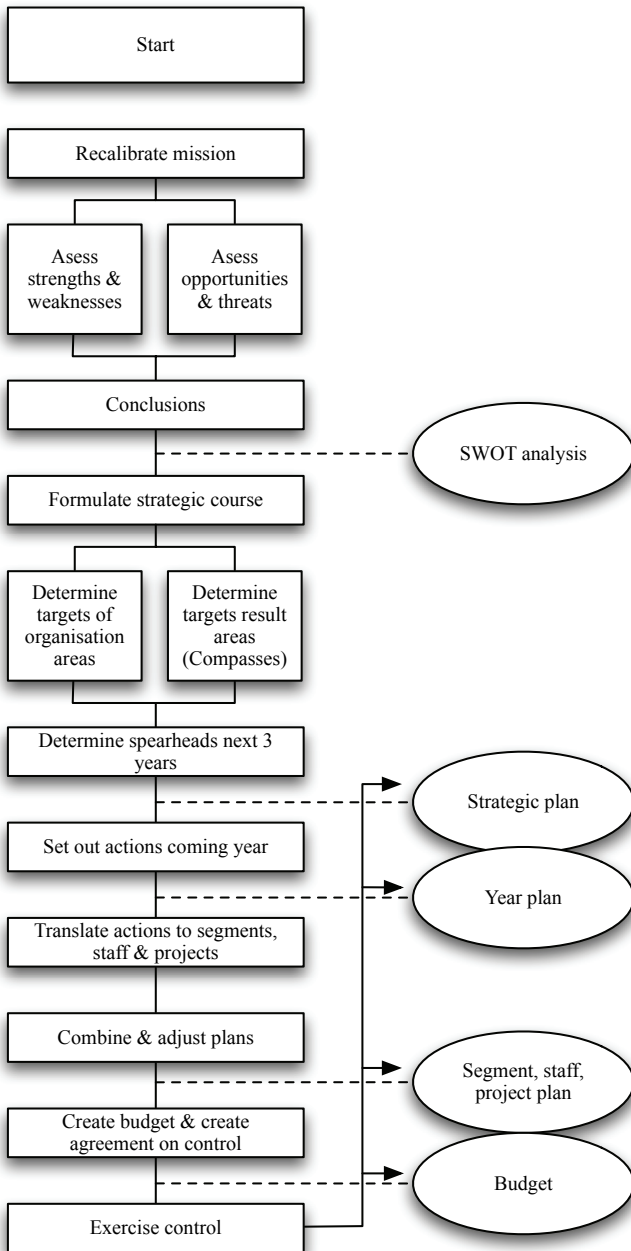


Figure 4-6: Results Oriented Management (Source: Management Manual Results Oriented Management)

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These steps yield a number of tangible outputs, such as budgets and different types of plans, but the member banks also expected the program to lead to a more result-oriented attitude.

According to Rabobank Nederland, the objective of ROM is to ‘professionalise the management control within the bank’, but most respondents at the member banks also made references to the objective of finding a broad commitment to policies and plans resulting from ROM. The Rabobank Intranet of the bank describes the nation-wide objective of Results Oriented Management as follows: *‘The objective of Results Oriented Management is, through improving the quality of the business administration of the member bank (which is not limited to the segment Business Administration) to achieve a structural improvement in the result on any of the three result areas of the Compasses: Customer Value, Employee Value and Financial Stability.’* The program clearly intends to be more than the adaptation of a number of new structural features within the bank. It also envisages an attitude change. According to the Rabobank intranet: *‘Results Oriented Management is a way of thought and action, aimed at the improvement of results in the Compasses. It literally means “managing on results”. This stands for: the translation of the ambitions of the bank into measurable targets and action plans; to ensure that these plans are executed. ROM actually strives for a cultural transformation that is typified by: measurement as an important quality and the ability to think in terms of results and concrete targets. Moreover, the transformation envisages the ability to confront each other about agreements and the continuous improvement of activities. ROM has thus everything to do with attitude and behaviour. One does not change this from one moment to the next and ROM needs to be seen as a development that requires much energy’* (underlining in original).

Rabobank Nederland offers the program to the local member banks, who can buy into the program. Although the member banks have considerable discretion with regards to the timing and precise emphasis they place on the different parts of the program, the majority have implemented the program in some form.

The program is offered with three modes of implementation:

(1) Direct guidance: The member bank uses external¹ advisors who offer support in applying the process of ROM and contribute to the embedding of its principles. The management team of the member bank does an initial interview with the consultant, in which they express what objectives they have for ROM. Then the consultant operates as a process supervisor throughout the meetings. The participants from the member bank make all choices in the process, the consultant simply facilitates.

¹ External advisors are often advisors on the payroll of Rabobank Nederland. Thus, although they are part of the Rabobank Group, from the perspective of the local member bank, they are external.

(2) Guidance at arm's length: The member bank manages the process itself, but when necessary, people at Rabobank Nederland are available to assess the results. Moreover, workshops are available. These are primarily geared towards knowledge exchange about the program. The meetings concerning the program typically take place without the consultant, unless his presence is requested.

(3) Do-it-yourself: The member bank uses the management manual, the supplied templates and information from the Rabobank Intranet (Raboweb) and the available helpdesk at Rabobank Nederland to implement the program itself. It has little or no contact with a consultant, and all activities, including process supervision, is done by the bank itself.

This study focuses on 14 member banks, which have all used direct guidance. As indicated above, the objective of ROM according to Rabobank Nederland is to 'professionalise the management control within the bank', in addition references were made earlier to the objective of finding a broad commitment to the policies and plans resulting from ROM. Later, chapter 7 will demonstrate that the objective of ROM is not self-evident to the member banks that participated. In fact, it will demonstrate that an objective of a program such as ROM is only one of many cues that point to a shared issue. This shared issue is then what ultimately determines the envisaged objective. But this may be quite different to the goals the developers of the program had in mind.

With regards to ROM, virtually all banks interviewed used a team of people consisting of the General Director of the bank, the other members of the management team, and representatives of all segments of the bank—this team is termed the MT+ group. Basically, these MT+ groups went through the stages depicted in Figure 4-6. In doing so, the group produced several documents:

(1) A SWOT analysis: a structured assessment of the perceived strengths and weaknesses of the member bank and its opportunities and threats.

(2) A strategic plan: a plan spanning some three years that sets out longer term expectations and choices made by the member bank.

(3) An annual plan: a somewhat more detailed plan for the coming calendar year, which includes priorities for the coming year.

(4) Segment plans, staff plans, and project plans: these involve specific plans indicating how the individual segments and staff units will contribute to the priorities defined in the annual plan.

(5) A Budget: this is drawn up based on the choices made in the different phases of ROM. This budget is used for internal purposes, but it is also sent to Rabobank Nederland.

As noted above, Rabobank Nederland's objective for ROM was to professionalise the control cycle within the member banks. Figure 4-7 depicts the desired development of the member banks' planning and control.

4. The cooperative split

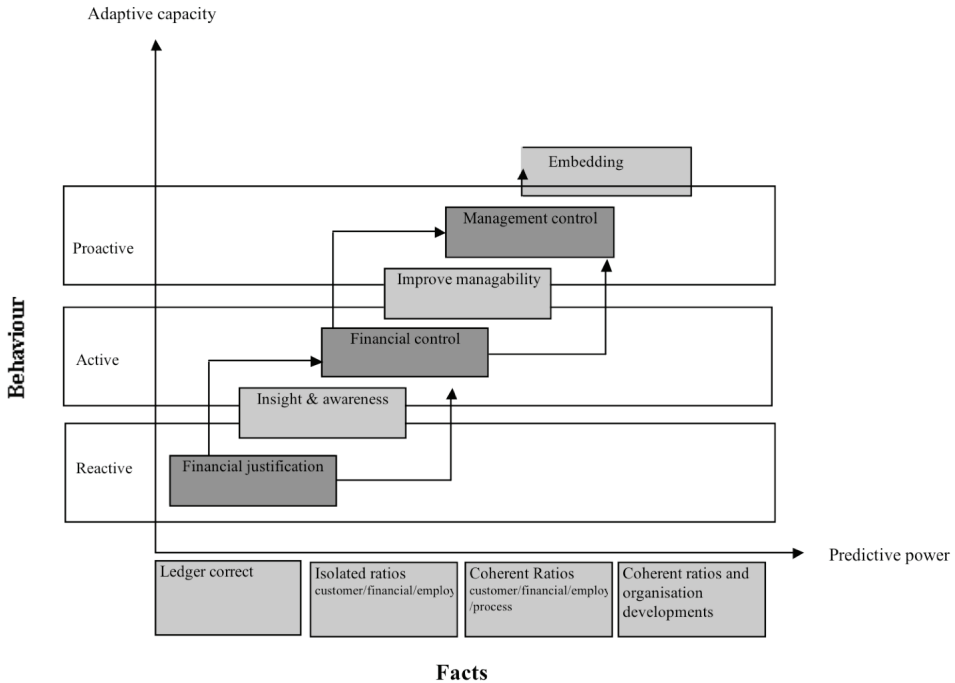


Figure 4-7: Axes of development of ROM (Source: ROM management manual)

The program is meant to ensure that the member banks use Results Oriented Management, hence the project name. Results Oriented Management is a process of steering activities using appropriate ratios and a structured overview of the organisation and its developments. In order to be able to manage in a result oriented way, the philosophy of the Rabobank is that member banks need to go through a number of phases:

- (1) Financial justification: banks manage primarily on hindsight. Member banks manage on historical facts and only a handful of people are involved: the financial control department and the management team.
- (2) Financial control: justification has developed into control; meaning that member banks actively manage processes. In this development phase, member banks will have made a start with management by means of customer and sales data.

(3) Management control: management occurs through the use of a coherent set of indicators. As such, the member banks strive to balance three result areas: customer value, employee value and financial stability. Individual employees are now involved in the process of management. Management control is a systems oriented way of steering. Behaviour stems from a pro-active attitude.

In order to be able to go through these phases, member banks need to implement changes in both *structure* and *behaviour* (see Figure 4-7). The former involves the application of new systems, such as PCK4, and new methods of reporting internally and externally. The latter involves the promotion of a result-oriented stance on the part of employees, as envisaged by the Deming circle: Plan-Do-Check-Act. This is a standard method for employees to constantly consider their behaviour and possible points for improvement. All in all, Results Oriented Management has a structural side as well as a behavioural one. Whereas Rabobank Nederland is communicating the structural side through manuals and the Rabobank Intranet, the behavioural side remains primarily the domain of the member banks and the consultants. Virtually all people interviewed at the various member banks felt that the behavioural side was especially critical to the program. As one respondent put it: *'we are used to changing structures, and they do not really affect us. But we are not used to being asked to change our attitudes, as the bank has been good to us, without straining its demands on us. However, it is clear that something needs to be done, so I am curious to see how flexible we will prove to be.'*

In this thesis, ROM is the object of study. As it involves both *structural* and *behavioural* change in the member banks, it provides an interesting focus for a study on institutional change. As all member banks have considerable autonomy in decision-making and the implementation of ROM. Their different experiences with these changes, both structural and behavioural, provide useful information to this research. The following chapters will discuss the process of change associated with the implementation of ROM. As noted earlier, change at the Rabobank is a time consuming process due to its democratic structure and its long history. It is an environment that is filled with existing habits and traditions of how to do things; in other words, the Rabobank is a highly institutionalised environment. Yet, change can occur, although the process is difficult and unpredictable. Chapter 3 discussed how human agency in institutions may be possible. Human agency is important to explain institutional change. Therefore, the insights from chapter 3 will be used to inform the empirical study of the process of change at the Rabobank. The empirical study will be discussed in chapters 6 to 11. But I will first address the methodological foundations of the study. This is the topic of chapter 5.

4.7 Conclusion

This chapter has introduced the Rabobank organisation, its cooperative structure and the role of the member banks therein. Furthermore, it has introduced the ROM program,

4. The cooperative split

which is the object of this study. The next chapter will discuss the methodology which has been adopted. The research is concerned with how the principles of the ROM program became institutionalised. But before exploring this issue, a methodological justification is needed.