

**Carpetbaggers and Credit Unions:  
A Sociological Study into the Paradox of  
Mutuality in the Late Twentieth Century**

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Submitted in Partial Fulfilment of the Requirements of the  
Degree of Doctor of Philosophy November 2002

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## Acknowledgements

This thesis wouldn't have been possible without the patience and encouragement of many friends and family, naturally I want to thank a few of them. First, mum and dad for supporting me through university, it's been a long time I hope it's worth it. Second, my supervisor, Steve Edgell, quite simply I wouldn't have completed without your guidance. Third, 'big up' to all the staff and students in the Institute of Social Research, for being there with a friendly chat when I needed it most. Fourth, to Bob Paterson and James Powell, thank you for giving me the opportunity to undertake this work. Fifth, a big thank you to Jennifer Powell who covered for me and never complained. Sixth, thanks to all those that participated in the research, in particular the staff from the BSA Trust for providing a small bursary. Last but definitely not least to Helen, you kept me sane and did so much to allow me the time to work. I don't know how to begin to thank you, but I hope I can repay you.

## Abstract

This thesis explores the apparent paradox of mutuality in Britain at the turn of the millennium. It contrasts the relative decline of building societies via demutualisation, against the continual governmental support for and growth of credit unions. It begins by constructing a cultural conceptualisation of mutuality, which comprises of four interrelated elements: trust, reciprocity/habit, longevity, and caution. These are formalised in an organisational model of cooperation, which seeks to explain how mutuals function in reality. Both these models are employed to assess the validity of competing explanations of contemporary mutuality. First, a functionalist interpretation, which assumes that demutualisation is an inevitable result of growth, is examined. Second, a neo-Marxist analysis, which believes resource appropriation by building society management, was the motivation for change. However, neither theory was substantiated by the evidence because they could not fully explain why demutualisation did not occur earlier or why new mutuals, namely credit unions, were being established. Consequently a third interpretation synthesising the Neo-Marxist thesis with a cultural post-modern glocal turn was developed. Accordingly, demutualisation occurred because building societies became disembedded from society. First, the culmination of paternalism produced a transformation in the trust relationship between members and management. Second, in the political and economic spheres, Thatcherism and globalisation marginalised any alternative perspectives to the neo-liberal narrative, through the commodification of the personal; discrediting and abasement of the mutual; and the imposition of a crypto-Utopian discourse. Alongside this assault on mutuality a counter-culture of opposition to globalisation, glocalism, created spaces for new mutuals, such as credit unions. Many of these entities deliberately prioritised social over economic objectives and based their attachment on a small locality. By examining mutuals holistically it is hoped that this thesis contributes to a sociological understanding of how cooperative organisations are affected by the state and hypercapitalism.

# 1 Introduction

The high volume of demutualisations (the conversion from mutual to joint-stock company status) between 1989-99 resulted in mutual organisations such as building societies becoming a rarity at the beginning of the twenty-first century. Unlike joint stock companies, mutual members are customers, and/or workers and own the mutuals. Membership is equally distributed on a one-member one-vote basis and not premised on pecuniary investment. The earliest known building society began in Birmingham in 1775 and formed part of a mutual tradition including friendly societies, insurance and burial companies, and ultimately co-operatives. Collectively these organisations were practical manifestations of early socialist thought that emerged alongside the Industrial Revolution. Building societies originally provided collective finance for house purchase and construction for and by members. Over time they evolved into the repositories of members' savings, which were then used to on-lend to other members in the form of mortgages. Until the 1970s building societies were the only<sup>1</sup> mutuals providing savings and loans facilities, thereafter credit unions were established which offered much smaller personal loans.

The ownership structure was ignored until building societies started to demutualise, when members were compensated in order to facilitate a transfer of control. Once individuals realised the potential for a windfall of £800-2500 on the basis of a £100 investment made prior to a predetermined date, many thousands of people joined societies. This activity became known as carpetbagging and participants called carpetbaggers. Companies were even formed to takeover building societies and force their conversion, although attempts to appropriate building societies have failed, most notably Leek United in 1999.

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<sup>1</sup> The exception being the Co-operative Bank

## **1.1 Aims**

This thesis is a journey from eighteenth century Birmingham to late twentieth century Leek and beyond. It is the tale of two mutual forms: the growth of credit unions, in receipt of political and public support; and the decline of building societies, the other indigenous and longstanding form, virtually ignored by the political establishment until very recently when they were considered legitimate targets by a minority of members. Specifically, it seeks to understand this apparent paradox by examining how these mutual forms and mutuality itself are defined, embedded and effected within contemporary culture. It does this through a review of the historical development of building societies and credit unions, followed by a theoretically informed empirical analysis of the attitudes of senior management of mutuals, the ordinary members, and the active members, who are predominately the anti-mutual carpetbaggers. More generally, the purpose of the thesis is to account for the rise, recent decline, and even more recent stabilisation of mutual organisations in contemporary Britain.

## **1.2 The Evolution of the Research Project**

This thesis was the product of three conflating influences that emerged independently in 1997. The first was the process of demutualisation (mentioned earlier), the second was my own research into community based financial institutions, and the third was the new socio-political literature grappling for alternatives to neo-liberalism.

In 1997 a total £35 billion in the UK was distributed through demutualisations, dwarfing the £22 billion raised by privatisation throughout Thatcher's 11 years as Prime Minister. This phenomenon which started within the Savings and Loans sector in the USA, before being transplanted into the UK with the conversion of the Abbey National in 1989, has now intensified and globalised, transforming the ownership of the personal finance industry. ACME (2001) estimated that £100 billion of insurance premium cover and 10% of the global life assurance business was demutualised between 1996-2001. Two-thirds of the UK capitalisation of building societies has been converted, and over 80% of those in Australia and Ireland, while within Australia even two credit unions have demutualised. In 1998 it was estimated that global conversions would

create \$200 billion of new stock (Grannis 1998), yet this was before the demutualisation announcement by America's largest insurer, Prudential, with its capitalisation of \$198 billion. Based on these figures \$400-500 billion of new shareholder stock has been issued globally in less than a decade, spreading from the Anglo-Saxon financial world to include Scandinavia and latterly Japan.

A third of the UK population gained at least a £1000 each (Marsh 1997), and the number of private shareholders rose from 9 million to 12 million (Eaglesham 1998) even excluding those who sold their shares within a year. Yet there is a paucity of literature on the greatest redistribution of wealth in British history. There are no histories of demutualisation, or philosophical monographs, political tracts, or assessments of its implications on the wider society. Even within the field of economics it is seen as part of the move towards a global economy and not an event in itself (Fliegelman & Maloney 1998, Pugh 1998). By the end of 1997 the FT estimated a third of the windfall had been spent on consumer goods (Marsh 1997), with the remainder saved as cash or shares. For these reasons I was drawn to the subject which was given added piquancy by the project I was then working on.

As the research assistant on a Leverhulme Trust project on financial exclusion I examined the intervention of differing financial intermediaries, including mutuals. According to the incoming Labour government this could best be resolved through the promotion of credit unions (H.M. Treasury 1999b). However, interviews with residents in deprived communities implied that credit unions were unlikely to be an appropriate solution. Interviewees argued that credit unions were designed for those who were in a position to save before they needed to borrow, which effectively excluded those unable to save. Instead we found that this group would continue to use moneylenders (Dayson et al. 1999).

Interestingly the government's promotion of credit unions, premised on them being a community based and responsive body, was occurring simultaneously with the demutualisation of building societies. This incongruity between policy objectives and a policy of non-intervention aroused my curiosity, especially as our interviewees were suspicious of credit unions whilst holding building societies in esteem. Additionally I suspected a link between the globalising forces allegedly causing the consolidation of



the financial sector, one of the outcomes of which was demutualisation, and the problem of financial exclusion. The bankers we interviewed conceded that a ‘flight to quality’ was occurring within their industry, in which institutions targeted the most profitable customers while closing branches and reducing services in deprived communities (Pratt et al. 1996). This caused a dilemma for the building societies as they risked losing their most profitable clients in order to provide universal services, or offer unequal provision based on income and geography. Combined with this was a fear of competitors merging and using economies of scale to undercut other providers. Arising out of this analysis is whether the mutual form, with its reliance on organic growth by membership deposits, had a future in a globalised financial marketplace? Or whether it would be reduced to a marginal supplier of services to deprived communities?

The third influence on the thesis was the emerging academic and political interest in collectivist approaches to policy implementation. Following the collapse of state socialism and hegemony of neo-Liberal economics and politics, there was a renewal of interest at the end of the 1990s in community, trust and mutuality. In the USA the Communitarian movement from a social authoritarian stance argued that a ‘rights based culture’ was weakening society (Etzioni 1993) and undermining the republican spirit (Bellah et al 1985). Similarly social capitalists (Coleman 1988, 1990, Putnam 1993) believed the intricate networks that held civil society together were collapsing as citizen’s lives became more privatised. This Durkheimian argument found echoes in Giddens work on high modernity (1990), and latterly the ‘Third Way – Beyond Left and Right’ (1998). Giddens argued that purely market or state based solutions would be inappropriate in a risk society, where people required ‘weak induction relationships’ to engender ontological security.

Politically in the USA and Britain, Clinton and Blair exploited the sense of anxiety in their respective societies, calling for a more integrated and participative (but not necessarily equal) capitalist societies. The continuing debate about the congruence between the Third Way and the politics of New Labour (Dahrendorf 1999, Etzioni 2000, Giddens 2000,) enabled Kellner (1998) to argue that the concept of mutuality offered a commonality between the philosophy and politics of the centre left:

*‘The Co-operative movement provides one important and enduring example of*

*mutualism in practice; however, it is the contention of this pamphlet that it can, and should, exist in every public private and commercial institution: in the boardrooms of our banks and in the classrooms of our schools; in shops and in factories; in trade unions and in government offices.*' (Kellner 1998:2)

Kellner's 'New Mutualism' drew on a relativist approach to Darwin and echoed growing sociological enquiry regarding the concept of trust (Luhmann 1979, Coleman 1990, Misztal 1996), considered an essential component of a functioning society. However, there appeared minimal theoretical exchange between New Mutualism and sociology, and no discussion regarding the effect of demutualisation. Instead, much of the New Mutualism writing came from a defensive perspective of 'proving' the value of mutuality and its viability (Leadbeater & Christie 1999), not explaining its apparent marginalisation in the financial sector. This analytically inductive (Denzin 1989 [1970]) and empirically grounded (Glaser & Strauss 1967) thesis aims to bridge the gap between the theoretical, policy, and economic debates. My intention is to demonstrate that mutuality has become an 'essentially contested concept', predominantly defined and shaped by capitalism affecting its structure and informing relationships between managers and members.

Unfortunately with a topic as broad as mutuality it has been necessary to focus attention on certain pertinent areas, resulting in the omission of the mutual insurance sector. Building societies and credit unions were selected as the mutuals of study as both were engaged in similar activities, but at very different stages of their life cycles. Additionally the concept of mutuality was much weaker among insurance mutuals with minimal participation in elections or encouragement by management (Grannis 1998). Furthermore their practices closely resembled that of their joint-stock company counterparts, as the Equitable Life debacle ably demonstrates, and the products they supplied had little cultural connection with the working class (Kempson et al. 2000).

Sociologically the two most obvious omissions are debates around the roles of professionals and the concept of community. Though both are discussed briefly the latter was minimised because I wanted to consider mutuality from an alternative perspective. Although community is often used in conjunction with mutuality I considered it told us little of how mutuality functioned between social actors.

Professionalism was mainly reduced because of a desire to concentrate on the concept of mutuality within society and its relevance to members, rather than within organisations. Equally, organisational literature has only rarely addressed the role of paid employees and managers within mutuals (Blau and Scott 1963). I accept that much of the thesis directly relates to these areas of study and I look forward to considering these in subsequent work.

### **1.3 Thesis Structure**

Following this introductory chapter the thesis has a further ten chapters. Two theoretical chapters sandwich another two outlining the history of British financial mutuals. A chapter discussing methodology precedes three dealing with the results and another triangulating the findings. The final chapter details the conclusions of the research.

Chapter 2 attempts to define mutuality and locate it within sociological literature. It begins by drawing on its philosophical origins in utopian thought before examining New Mutualism. Using these discourses I propose a sociological understanding of mutuality based on the inter-locking components of trust, reciprocity/habit, longevity and caution. Collectively these four principles ensure the prime function of mutuality, stability, is attainable. The remainder of the chapter discusses how mutuality has been converted from theory into practice, in particular through cooperation. Out of this literature a theoretical model of co-operation is developed based on education, non-transferable ownership, solidarity, community economics, democracy, and at its pinnacle stability. These concepts are the practical manifestations of the components of mutuality and it is these that have become associated with mutuality. However, this has been a selective process with emphasis placed on democracy and less attention on non-transferable ownership. This particularist cooperation has enabled the demutualisation process to occur and be justified because it is the 'will' of the members.

Chapter 3 reviews the early history of mutuals tracking building societies from their inception by non-conformist groups as a response to their exclusion from housing finance. Later in the chapter this is paralleled in the development of the first credit

unions which came from Catholic and Caribbean communities in the 1960s. The chapter also demonstrates that mismanagement and anti-democratic practices, so reviled by critics of contemporary building societies, were more extensive in the nineteenth century.

Chapter four follows the history from 1979 through to 2001. During this period there was a divergence between the evolution of building societies and credit unions, with the former being liberalised under the eponymous 1986 act which enabled demutualisation, while the latter's regulator strictly interpreted an already restrictive legislative frame. To my knowledge, the chapter gives the first full historical account of the demutualisation period, suggesting that two conflicting narratives were employed as explanations. A functionalist approach was used by the converting building societies, believing the process was an outcome of becoming too large for their organisational form and the attached requirement to compete in a global economy. Others took a neo-Marxist interpretation stating that the avarice of directors, who sought to appropriate the means of production, was responsible (Hird 1996). Meanwhile credit unions were said to have divided between instrumentalists, who sought a more business-centred approach, and idealists keener on community development. Again this suggests a parallel with the development of building societies.

In the fifth chapter I seek to locate contemporary mutuality within broader culture and society and assessing other possible explanations. The chapter begins by analysing the validity of the functionalist analysis of mutuals by examining the relative merits of ownership and organisational structures. The role of the *middle classes within mutuals* and how they usurped and redefined the concepts of community and mutuality are discussed to inform the neo-Marxist perspective. Moreover, I hold that the role of the state has been crucial in the development of mutuals often subverting mutuality in favour of capitalist interests. However, the neo-Marxist argument used thus far has omitted this aspect and the importance of embeddedness (Granovetter 1985) within a culture to mutuals, which are analysed in the remainder of the chapter. Initially, I examine the literature on Thatcherism and whether privatisation established an intellectual justification for demutualisation. Thereafter a review of writings around globalisation and 'glocalisation' is undertaken, as these may have been additional forces of disembedding for some mutuals and the re-embedding of others. Finally the chapter

debates the New Social Movement (NSM) literature to assess whether mutuals could be defined as a NSM or whether collectively the members of mutuals who promote demutualisation are a NSM.

Chapter six begins with an overview of the three methodologies employed in the fieldwork: semi-structured interviews of mutual managers, surveys of members of both credit unions and building societies, and cyber-ethnography of active building society members' websites. The latter is a relatively new form of research and there is detailed discussion of its merits and the justification of its use.

Chapter seven outlines the results of the interviews with the mutual managers. These findings provide support for the neo-Marxist embeddedness perspective developed in chapter five, suggesting that mutual managers have to operate within an environment in which joint stock companies are viewed as the 'natural' economic form. This forces managers to negotiate the existence of mutuals through accommodating capitalism in terms of both economic objectives and socially defined purposes. However, the managers remain optimistic for the future believing that globalisation has encouraged a counter-trend of glocalisation, through which mutuals embedded within their local cultures can prosper.

The results of the surveys are discussed in chapter eight, and indicate that the middle class members are more inclined to support demutualisation, while the working class express a desire to retain the reciprocity element of mutuality. Moreover, there was also a positive correlation between attitudes towards privatisation and demutualisation.

The views of more active members, particularly those most opposed to mutuality are discussed in chapter 9. The language, and to a lesser extent the attitudes adopted by many of these campaigners essentially replicates the discourse of anti-capitalist NSMs, yet these individuals wish to remove a possible counter element to capitalism. Further contradictions are exposed when some carpetbaggers argue that they are motivated by a desire to financially protect their kinship groups against the vicissitudes of globalisation, which they also believe is the justification for demutualisation.

The findings of the previous three chapters are triangulated in chapter ten to show how

the differing social actors within the mutuals understand the components and elements of mutuality, and the respective importance of other influences on its changing nature.

These cumulative results are then discussed in the conclusion in chapter eleven, which returns to the theory of mutuality developed in chapter two and the explanations of change in chapter five, to argue that mutuality has been widely misrepresented resulting in an adulterated mutuality partially defined and prescribed by the capitalist sector it has worked within. The recent disruption to its status was an outcome of accelerated capitalism in the late twentieth century, which challenged and ultimately disembedded the previously negotiated accommodation with state and capitalism. However, this has enabled mutuality to survive due to the scope of globalisation leaving a cultural vacuum within many localities, which mutuals may partially fulfil.

## 2 Mutuality In Theory

### 2.1 Introduction

Until the emergence of the New Mutualism literature, mutuality was a forgotten and neglected term, more of interest to management and economic academics than sociologists. Its limited use has invariably been restricted to being an alternative verb to cooperation, while I could locate no sociological attempt to distinguish these terms or define mutuality.

As outlined in the introduction, the rediscovery of mutuality after a prolonged hiatus in theoretical understanding (Birchall 2001) arose because it resonated with the discourses on the Third Way and the search for a pragmatic ideology (Leadbetter and Christie 1999, Giddens 1998). Furthermore it benefited from being untainted by mistakes of the past:

*'...unlike liberalism, socialism, social democracy or conservatism, mutualism has not figured in mainstream twentieth century debate. Thus it has not left a trail of change and contradiction, or dispute about its meaning.'* (Kellner 1998:5)

In extracting mutuality from a narrow economic deterministic definition, Kellner obfuscated the imprecision of its origins, resulting in a conceptually weak and under theorised philosophy. The consequence of this is the contemporary usage whereby it can be universally embraced without any substantive ontological knowledge. Thus mutuality is attractive because it draws on the individualism and freewill of liberalism, and the social justice and solidarity of socialism, yet the issue of power relations is often obscured by appeals to natural justice (Owen 1927 [1816], Fourier 1966 [1829],) or in the case of the New Mutualists – socio-biology (Kellner 1998, Rodgers 1999).

Arguments regarding the distribution of power have polarised opinion within existing mutuals and are present throughout the thesis. I deliberately avoid offering a definitive resolution, arguing that the tension is a function of its unique structure, which can be managed if both sides share an understanding of the sometimes competing essential components of mutuality.

## 2.2 Utopian Origins

Unlike capitalism or Marxism, mutuality does not have a seminal text from which a body of literature can evolve, develop and contradict. Instead mutuality's lineage draws from utopian communistic writers. In 'Utopia' More (1989 [1516]) creates a world where money and private property are abolished, sentiments echoed in Winstanley's polemics and pamphlets (Winstanley 1983 [1652]). Owen, considered by many (Beer 1957, Cole 1965,) as the father of mutuality and the Cooperative movement, offers the first comprehensive critique of industrial capitalism, and suggests the establishment of small interlocking mutual communities. Similar views were being expressed in France by Fourier (1966 [1829]), whose more conservative perspective envisaged the continuation of patriarchy alongside a limited role for mutuality. It could be argued that Fourier's vision has accurately reflected the history of the cooperative movement. Elsewhere Proudhon argued mutualism was based on the reciprocity of services (Hall 1971). In the twentieth century Kropotkin (1904) emphasises the importance of habit in mutual behaviour, while Tawney (1964) equates mutuality with fraternity.

### 2.2.1 Thomas More and Gerard Winstanley: Pre-industrial Utopianism

Though mutuality is considered to be intertwined with socialism (Beer 1957, Kellner 1998), its English heritage was in the sixteenth and seventeenth century utopian communist thought of More (1989 [1516]) and Winstanley (1983 [1652]). Both believed that mutuality (which prior to the 19<sup>th</sup> century was used interchangeably with cooperation) was the *a priori* state of human society and had only been supplanted by competition and individualism after the introduction of property. This idealist or utopian epistemology was the philosophical equivalent of the "forbidden fruit", with both More and Winstanley seeking divine justification for their argument from the Acts of the Apostles.

More's concept of mutualism is constructed through virtuosity, with the reward being received in heaven (Kautsky 1927). Significantly he argued that the accumulation of private property resulted in anxiety and unless abolished would result in continuous



unhappiness. For More happiness can only be attained if the individual is subservient and immersed by the collective, because the collectivist approach of the utopia brings stability and thus removes anxiety and the pursuit of inequality. Subsequent interpretations of mutuality assume that it brings stability and therefore ensures happiness. More does not state how the equality and social justice of his utopia will be upheld. In contrast Winstanley's utopia is sustained mutuality through an appeal to self-interest and reason:

*'knits every creature together into a oneness, making every creature to be an upholder of his fellow, and so everyone is an assistant to preserve the whole.'* (Winstanley 1983 [1652]:89)

Thus Winstanley replaces the theocratic teleology of More with one based on individual self-determination. Winstanley believed that individuals would always seek to maximise personal happiness, which could only be achieved through submission to collective will. Winstanley's theory draws inspiration from John Lilburne's concept of mutual consent, which held that all men were created equal and that power could only be granted freely and limited only to producing the collective good (Sharp 1998). By merging the outlook of More and Lilburne, Winstanley realised the importance of the link between economic and political freedom. Whilst acknowledging the possibility of dissent, unlike Hobbes he felt that cooperation, not conflict, was the natural condition of man but this still needed to be enforced through rigid laws. Though coercion would be required to maintain solidarity, the transition to a communistic society would occur in a theoretically problematic *'day of judgment of all men's hearts'* (Hill 1972:393).

What emerged from More and Winstanley was a conflict between the presumption that mutuality is based on a priori knowledge and the requirement of force for its maintenance. If coercion is necessary then mutuality is formulated not inherent. Winstanley's position was contradictory as he shared Owen's (1927 [1816]) later belief that humans were primarily conditioned by the environment; that we had to the ability to learn from our experiences and the environment that most shaped us was property (Petegorsky 1972). This critique should not diminish the contribution of More and especially Winstanley to our understanding of mutuality. By incorporating the concept of consent and free-will into More's utopia, Winstanley outlined the parameters of

contemporary mutuality: individuals voluntarily entering into an interdependent community, which has a form of accountability, and where the maximum benefit to the individual occurs through collective provision. This interdependence is based on reciprocal relations between the participants, in which all contribute to the collective.

### 2.2.2 Owen and Fourier: Industrial Utopianism

In the early nineteenth century Owen came to his understanding of mutuality through a critique of industrial capitalist society (Cole 1965). He stated that industrialisation was causing high levels of differentiation in the workplace and that labour was the source, but not the recipient of wealth. Profit was accumulated through the creation of surplus value in the labourers' output and this excess was redistributed to shareholders. Additionally demand is controlled to ensure scarcity, which maintains prices and reinforces inequality (Owen 1927 [1816]). In Owen's opinion this was both economically inefficient and morally wrong (Yeo 1971).

Owen's alternative 'New View of Society' envisaged the establishment of a network of interlocking and integrated communities, built on collaboration not competition. In accepting industrialisation and differentiation, he believed that only a cooperative society could maximise the benefits for all and create a good life. Thus, Owen did not perceive mutuality as natural but 'superior' to individualism. Unlike More, Owen foresaw that the transformation to a mutual society would require re-education. By basing his philosophy on a critique of the existing order, Owen developed the first empirical understanding of mutuality.

Though Owen moves beyond the *a priori* philosophy of More and Winstanley, his explanation of how mutuality is to be secured and maintained is intellectually naïve and regressive when compared to Winstanley's. Owen's attachment to reason causes him to over emphasise the power of education and omit the necessity of coercive power. Similarly, he perceives democracy as unnecessary and divisive in a society where individualism is logically inferior to cooperation. Instead responsibility for governance is to be rotated and distributed evenly across the community. This reciprocal participative government limits the power of any individual, implies a moral imperative to conform to mutual principles, and places emphasis on the trust between participants.

Owen was aware of the risk of alternative mutual power centres developing, which could disrupt the priorities of the community, as was demonstrated in his condemnation of the family unit. This pre-dates Sennett (1974) in perceiving the family as a centre of privatised and introspective behaviour, which would have a detrimental impact on the society. From this it can be assumed that Owen's ideal mutuality would have open membership, as closed membership would pursue their own narrow objectives, possibly at the expense of the collective. To overcome this Owen proposed redesigning social norms and habitual behaviour through the separation of parents and their children. Thus Owen suggested that power within mutuality was connected to control and management of social norms.

Among the utopians only Charles Fourier foresaw the necessary accommodation and compromises mutuality would require to be allowed to continue under capitalism. Like the aforementioned authors Fourier wished to create an alternative society, however he wished to engender support from the ruling elite and consequently he was opposed to the abolition of private property and equality of distribution ([1829] 1966).

Additionally, he felt humans were ruled by their 'passions' and the purpose of any society was to reconcile these to serve a general good. To Fourier these 'passions' were most obviously apparent in patterns of consumption. In his analysis the unequal distribution of resources was predominantly the responsibility of those people who traded goods rather than the producers. In effect the problem was one of consumption rather than ownership of production:

*'Is there anything sensible or rational about an order in which fifty thousand inhabitants of a city are reduced to idleness and beggary as a result of a change in fashion that takes place two thousand leagues away in the United States'* (Oeuvres complete de Charles Fourier IX, 1966-68 [1829] cited in Beecher 1986:198-9)

Passions could be managed if goods encompassing collective security such as assurance schemes, banking, and agriculture were provided from a single source, while profiteering would be curtailed, as goods would be supplied only through cooperative shops. At the heart of Fourier's concept of mutuality is social harmony (Goodwin 1972), rather than the communistic economic equality of More, Winstanley and Owen. To Fourier social harmony could only occur if "passions" were harnessed (Mellor et al.

1988) and for him equality was a corrupter of an individual's "passions". This pursuit of psychological emancipation and collective unity meant that it was acceptable to accrue wealth and possessions providing it had been achieved through individual production. Fourier's meritocracy is reinforced by his insistence on elective democracy, but partially vitiated by his approval of inherited wealth and the receipt of interest on investment capital. Of all the progenitors of mutuality, Fourier's legacy is the most intellectually problematic and historically accurate. He prioritises an individual's 'passions' and considers conflicts can be resolved by collective approaches, but he offers no explanation why individuals should accept the outcomes of this scenario. He desires social harmony but cannot grasp the inequities caused by inherited wealth. Finally he attacks the adverse effects of consumption but fails to account how this will be curtailed if people have free use, beyond that being paid for mutual services, of any earnings. Yet he perceived the need for collective provision to alleviate the impact of risk, describing a mutuality which would be democratic, have voluntary membership, appeal to an individual's needs, and be interlocked with a capitalist economy. Additionally he implies that mutuality must adopt a cautious and long-term perspective if it is to ultimately replace capitalism without detrimentally affecting social peace.

### 2.2.3 Kropotkin: Early Twentieth Century Utopia

Kropotkin wrote his *Mutual Aid* (1904) in an attempt to recapture Darwin's theory of evolution from Spencer and supporters of the maxim "the survival of the fittest". He examined the sociability of animals and early human history through to the medieval guilds, and found widespread evidence of mutual relations. Animals mostly lived in societies, to counteract "*all natural conditions unfavourable to the species*" (1904:293) and similarly humans had lived in clans and tribes because mutual dependence was necessary for each other's happiness. Practising sociable habits ensured better personal security and easier access to food, thereby enabling longer lives and greater opportunity for the development of intellectual faculties. Society and mutual aid thrived in environments of loose structures where individuals had the greatest freedom, for example the medieval guilds. Unfortunately this creativity and network of mutual relationships within the guilds was subjugated by the "*crushing weight of the centralized State*" (1904:263) as the "*continual interference of its officials paralysed the trades, bringing most of them to a complete decay.*" (1904:264). Mutuality was an

exchange between equals, and attempts to supplant mutuality with charity were destined to failure, as charity *"implies a certain superiority of the giver upon the receiver."* (1904:283). Kropotkin's critique of state intervention reflects the opinions of New Mutualists which are discussed in 2.3.

To Kropotkin mutuality, being an evolutionary imperative, could not be destroyed by the state. Its initial supporters were invariably drawn from excluded groups who employed it as a means of everyday survival. From here mutuality widened and prospered among those with common occupations and daily contact, indicating the relevance of openness and habit to its development (see 2.4). However, this is accompanied by an erosion of commonality when mutuals extend into cities where indifference and privatisation of the self are nurtured. Kropotkin saw individualism having two strands: personal gain, which was unfortunately prevalent in cities; and the breaking of existing mutual chains to achieve freedom, which was sometimes necessary and desirable. Kropotkin holds the latter arises when mutual institutions and relations lose their *"primitive character"* and are invaded by *"parasitic growth and thus become hindrances to progress"* (1904:xvii). The ensuing revolt within mutuals has three protagonists: purifiers who seek to resurrect a higher and purer mutual aid; a second group who seek to *"breakdown the protective institutions of mutual support, with no other intention but to increase their own wealth and their powers"* (xvii); and finally defenders of the status quo. Kropotkin's analysis of the decline of mutuals has an attractive resonance to contemporary demutualisations of building societies as is reflected in chapters 7 and 9.

The philosophical origins of mutuality clearly reside within what was once called communistic thought, which prioritises equality and solidarity over liberty. However, while this is a central tenet of the socialist and utopian thought of More, Winstanley and Owen, it is an anathema to Fourier and Kropotkin's concept of mutuality. For them liberty is a prerequisite of mutuality, through the freedom of association, while mutuality's resistance to the use of centralised power heightens this separateness. Tawney (1964) progresses this debate by suggesting that mutuality represents fraternity, whose role it is to balance the demands of equality and liberty. What remains unclear is how this pivotal role should be maintained and what happens to the distribution of power. However, trust, whether in a higher faith (More), humankind (Winstanley and

Owen), or evolution (Kropotkin) appears central to mutuality, as does normative reciprocal behaviour which develops cautiously over a prolonged timeframe. These early theorists continue to inform contemporary understandings of mutuality, with the rationality of Winstanley, Owen's emphasis on education, Fourier's gradualism, and Kropotkin's evolutionary approach all present in the writings of the New Mutualists.

#### 2.2.4 Beveridge, Marshall and Titmuss

For much of the twentieth century mutuality has been subsumed by debates around the creation and maintenance of the welfare state. The main agent of this transition was Beveridge who in a series of reports set the theoretical template for the welfare state (1942, 1944, 1948). However, despite Beveridge's protestations to the contrary (1948), the welfare state created by Liberal and Labour governments minimised and eventually curtailed the role of non-state mutual organisations in the delivery of welfare services.

During the nineteenth century the skilled working-class had established friendly societies, co-operatives and other mutuals to provide insurance for burial fees, unemployment protection, and rudimentary pensions (Thane 1996). It is estimated that by 1904 over 6 million men were members of these schemes (Green 1982, Thane 1996). However, these services were criticised for being gender specific, as women were largely excluded because they were perceived as being more prone to sickness (Thane 1996). Moreover the low-paid, which included most women, could not afford the regular repayments and tended to join informal savings schemes. As mutuals grew they also became more detached from their members with a concomitant decline in conviviality, and a growing belief that they were less financially secure than commercial providers (Taylor 1995, Thane 1996). These criticisms were supplemented by the view of Bevan that mutuals were a '*patchwork of local paternalisms*' (cited in Taylor 1995:219). Furthermore he and other socialists highlighted the uneven provision of services across the country, the resource and skills shortages among many mutuals, and the absence of any strategic foresight (Thane 1996). This perspective overlooked the organic nature of mutuals development, which tended to follow routes of least resistance and centres of population, in order to secure sustainability (Birchall 2001).

In response to these complaints Beveridge sought to combine '*the old spirit of social*

*advance by brotherly cooperation*' (Beveridge 1948:117), with universality and comprehensiveness of state social welfare (Birchall 1988a). In practice Bevan and the Labour Party found reconciling these impossible (Birchall 1988a) because the mutuals and voluntary sectors were paternalistic organisations and consequently were incompatible with the new vision of centralised planning (Gladstone 1995). Recently Yeo (2001) criticised the revisionism of the Labour Party's antecedents by Bevan and other state socialists, believing that they ignored '*old, old Labour*' (2001: 232) which engaged in co-operative and mutual behaviour. Furthermore when they came to create the welfare state they did not utilise their own '*great tradition to undertake the work in hand*' (2001:231). Similar sentiments were expressed from the Right by Green (1982), who, in a historical review of the 1911 Social Insurance Act, noted Beveridge's dismay at the undermining of mutual aid by the vested interests of doctors and commercial health care providers.

Although these historical interpretations help us understand the failure to create a Beveridge style welfare state, they overlook the opaqueness of Beveridge's concept of mutuality. In '*Voluntary Action*' (1948) Beveridge argued that the welfare state should be based on minimal state provision supplemented by voluntary action (Williams and Williams 1987). To Beveridge a '*voluntary organisation properly speaking is an organisation which, whether its workers are paid or unpaid, is initiated and governed by its own members without external control*' (1948:8), this included traditional mutuals, such as friendly societies, and charitable entities. Although he segments them for definitional purposes he still maintains that both have an equally important role. Consequently it is unsurprising that Bevan and others were dismissive of the appropriateness of this model, mainly because of the negative image among many working class communities of philanthropic bodies, often engaged in selective service to the 'deserving poor'. Thus mutuals suffered from guilt by association.

Philosophically Beveridge built on the tradition of Owen, Fourier, and Kropotkin to argue that mutuals had their origins '*in a sense of one's own need for security against misfortune, and realisation that, since one's fellows have the same need, by undertaking to help one another all may help themselves*' (Beveridge 1948:8-9). Moreover this collective security extended beyond kinship groups and was a fraternal self-help based on mutual reciprocity (Green 1982, Thane 1996). The reciprocity was to be based on

*'men who know one another pay money regularly into a common fund in order to be able to draw on that fund when they are in need'* (Beveridge 1948:21), this resulted in a *'fellowship'* of men who trusted each other. However, Beveridge acknowledged that personal reciprocity diminished as the mutual grew and was replaced by individual accumulative motivation (Beveridge 1948, Williams and Williams 1987). To partially offset this Beveridge argued that mutuals based on personal thrift, for example building societies, were legitimate forms of mutuality provided they operate outside the state, as the freedom to create and maintain a public space was an important function of a mutual. Disputing this Williams and Williams stated that the remaining mutuals had *'an afterlife as adjuncts to middle class individualism'* (1987:151), as commitment to personal thrift and *'preserving the freedoms of capitalism undermined the possibility of effective action'* (p172). The difficulty with this analysis is that the authors do not contextualise Beveridge's writing. As Green suggested Beveridge realised that mutual aid was *'incompatible with compulsory state provision of services'* (1982:36) and that it requires freedom of choice to avoid becoming *'incomprehensible'* (p36). Although unlike Green Beveridge wrote from the centre-left but he did perceive the state as a threat (1948). Moreover as a liberal he believed that collective action through individual free-will, not coercion, was the only means to establish his cherished *'friendly society'* (1948), in which *'each with its own life in freedom, each linked to all the rest by common purpose and by bonds to serve that purpose. So the night's insane dream of power over other men, without limit and without mercy, shall fade. So mankind in brotherhood shall bring back the day'* (1948:324). Through this Beveridge connects to the tradition of the utopians in ultimately linking mutuality to libertarian socialism.

Beveridge's liberalism incorporating mutual aid was also evident in the work of Marshall (1965, 1981) and Titmuss (1970). Marshall argued that modern citizenship had three interlocking elements: democratic-welfare-capitalist, which formed the *'Hyphenated Society'* (1981:102). He believed that the contradiction of political equality of the franchise and the social and economic inequality caused by capitalism was best resolved through the introduction of welfare (Turner 1990). The purpose of the Hyphenated Society was to maintain equilibrium between these axes, as the extension of one at the expense of the others would ultimately diminish freedom and security (Marshall 1981).



Marshall indicated two roles for mutuality in the Hyphenated Society: first, the collective welfare of the friendly societies was already informed by the democratic principle; second, mutual aid *'when applied to a comprehensive scheme of national social insurance, is nothing else than the concept of common citizenship'* (1981:71). Thus the pursuit of universal state provided welfare service is *'for the community as a whole a mutual benefit society of the kind with which the working class were familiar among themselves'* (p131). More explicitly he stated that the NHS is a *'system of mutual aid operated by the citizens through parliament, local government, and a host of boards and committees on which doctors and layman (unpaid) sit and work together'* (p79). However, Marshall did recognise a risk with his nationalisation of mutuality; fearing that an over-paternalistic state monopoly of welfare would detrimentally effect collective social action by communities. From the mutualist perspective it is Marshall's failure to resolve this conundrum of the coexistence of mutuality and state monopoly, rather than the criticism of evolutionarism and anglo-centricism highlighted by Turner (1990), which remain his most problematic legacy.

Perhaps an explanation for the role of mutuality within the welfare state was provided by Titmuss (1970). He stated that the Second World War had created an environment for more solidaristic and statist welfare policies (Titmuss 1950), thus its completion was the *'fulfilment of fraternity, the creation of community'* (Gladstone 1995:6). However, by the late 1960s social cohesion was rupturing and Titmuss indicated that the welfare state should be based on the principle of the 'Gift Relationship' (1970). The objective of this was to serve social concern, achieved through being independent of the selfish motivation of capitalism and the coercive and sometimes unreliable power of the state (Barry 1990). Tittmus argued that the perfect example of the gift relationship was giving blood. As giving it freely signified a belief in the future altruism by others in returning the compliment.

*'By expressing confidence in the behaviour of future unknown strangers they were thus denying the Hobbesian thesis that men are devoid of any instinctive moral sense.'*  
(Titmus 1970:175).

Thus the welfare imperative was dependent on the spread of altruism and this mutual

society could only remain cohesive through complex networks of reciprocal obligations. In contrast state monopoly of welfare became bureaucratic and impersonal, or commodified, the latter of which undermined moral bonds.

Despite attempts by the New Right (Green 1982, Barry 1990) to use Titmuss, Marshall, and Beveridge to argue for the minimisation of the state, the authors genuinely desired state involvement in welfare provision but they wanted this based on universal mutuality and not bureaucratic command management. This indicates the difficulty of locating libertarian socialist perspectives within contemporary debates about the future of the welfare state. However, with regards to mutuality it is apparent that the authors agree that it requires at least solidarity and reciprocity if collective security is to be fulfilled.

### **2.3 New Mutualism: Late Twentieth Century Pragmatic Utopianism?**

The intellectual reawakening in solidarity and mutuality was foreshadowed by economic Post-Fordism and cultural Post-Modernism. A consequence of Post-Fordism was the decline in mass work based communities and a shift to more individualised environments, sometimes located in the home. In tandem with this change Post Modernism challenged the universality of ‘grand narratives’, such as socialism and capitalism. In disrupting certainty, increasing risk was placed on individuals who adjusted by reformulating their identities (Giddens 1991). This process of differentiation ruptured existing social structures and resulted in parallel contradictory processes such as anomie (Putnam 1993, 1996) and new social movements. Traditionally in times of crises the nation state would provide a shared sense of identity but its legitimacy and hegemony was now being challenged. This was exacerbated by the electoral success of neo-liberals in the USA and Britain and the consequent reduction in universal welfare provision (Edgell and Duke 1991, Flynn 1997).

Following his election as Labour leader Blair, ‘tested’, ‘solidaristic’ theoretical stances, earning a reputation for ‘*ideological promiscuity*’ (Hargreaves 1999). Meanwhile the conversion of the building societies to banks forced those remaining to re-evaluate the objectives and delivery of mutuality (Llewellyn 1997). An unexpected outcome of this

process was revealing flourishing mutual activity within society (Leadbeater and Christie 1999, Mayo & Moore 2001). Partially this was an example of new social relations being formulated in a postmodern era, and reaction to the neo-liberal displacement and withdrawal of the welfare state. Nevertheless by mid-1990s a new critique of society drawing on both neo-liberal and Marxist traditions was emerging, originally described as associationalism (Hirst 1994) before becoming known as New Mutualism (Kellner 1998). The New Mutualists believed that the state had become over bureaucratized, disempowering the citizenry and failing to deliver the illusory objective of universal services (Hirst 1994). Private sector supply was also discredited due to a deficit of public trust because it prioritised shareholders over users (Leadbeater 1999, Michie 1999). Additionally, drawing from Hutton (1997), both Kellner (1998) and Hargreaves (1999) highlight the chronic short-termism of British companies, being driven by conflict rather than cooperation between stakeholders. The aforementioned authors' solution (Birchall 2001) was mutualism and a greater use of cooperative organisational forms. Thus Kellner (1998), and particularly Leadbeater and Christie (1999) extended Hirst's (1994) associationalism beyond the public sector, converting it into an ethic; mutualism. Furthermore Kellner reconnected mutualism with its English libertarian socialist origins, holding that Marx was the 'villain' as he converted the ethic into an ideology, in which ownership and the control of the state became synonymous. This Yeo (2001) later described as a conflict between old, old Labour and old Labour.

Kellner (1998) accepted that environmental changes would be required if New Mutualism was to prosper, which he classified as the seven pillars of mutuality:

1. For the free exercise of liberty an acceptance of mutual responsibility is required
2. These should be rooted in culture and choice rather than rules and coercion
3. The source of legitimate political power is less important than how it is used, how it is checked, and how far it is dispensed
4. Markets are social institutions and therefore should offer rights and impose obligations for those seeking financial gain
5. Government should act as umpire, promoter of good practice and avoid becoming a competitor
6. Mutualism requires an inclusive society with equal access and participation
7. Government should guarantee basic equality of access but leave delivery to independent institutions exercising their mutual responsibility

Writing later Kellner (1999) acknowledged that the transition to mutualism, which should apply to all organisations, would be more challenging for governmental bodies. This was because business practice among some investor owned companies was increasingly mutualistic, though he did not overemphasise this, accepting that “*the application of mutual principles to private enterprise is reasonably easy to set out, if not easy to implement*” (1999:xxii). For the public sector its role should be to set the framework and “*then get right out of the way*” (New Statesman 1999:iii). Justifying this, Kellner believes that bureaucratic regulation is invariably too excessive and ineffective; it wraps companies in red tape but fails to catch wrong-doers who use the multiplicity of rules to identify loopholes. Where Kellner and the other New Mutualists differ from Hirst’s (1994) associationalism is their perspective that mutualist entities as opposed to mutual organisations should deliver services. However for those supporting continual universality of provision (Offe 1994, Taylor-Gooby 1994, Flynn 1997) this differentiation is probably insufficient. Flynn (1997) saw inherent risks in associationalism and by implication mutualism, as heterogeneity of supply would result in a fractured service, though Hirst believes this merely codifies existing inequalities. Another risk foreseen by Flynn was that multiple providers, which may include religious groups, could result in factionalism. Birchall (2001) counters that provision should only be provided by ‘open’ organisations and unfettered supply is the province of liberals. Mutualists hold that the regulations have to impose a ‘licence to operate’. Flynn argues that the basis of membership effectively excludes certain individuals and groups; thereby any attempt to broaden the accessibility through the entry criteria would effectively undermine the cohesiveness of the association. Finally Flynn doubts the likelihood of the member participation envisaged by Hirst, instead the organisation will conform to Michels (1949) iron law of oligarchies. This view was echoed by Wallace (1999), who thought that mutualism was too silent about the location of power, while Leadbeater and Christie (1999) acknowledged that mutuals could become either introverted or ineffectual due to their size and the weakness of their membership bonds. Much of this criticism was articulated by Kropotkin and was subsequently borne out in the history of building societies (chapters 3 and 4).

Missing from this debate is a discussion of what motivates individuals to cooperate. Though Flynn queries participation, absent but implied from his critique is a

questioning of members' motivation. Unless Hirst can demonstrate that members will participate, the prime benefit of associationalism, direct user accountability, is lost. In addressing this matter Kellner (1998) and Rodgers (1999) employed two interwoven discourses, which I have entitled socio-biological and Durkheimian. As previously discussed Kropotkin questioned the validity of competition as the natural condition. This genetically deterministic perspective reached its epoch with socio-biologists such as Wilson (1975, 1978) who argued that society and culture was constrained by our genes.

Wilson's reductionism was challenged by mathematicians who were designing game theory scenarios to explain behaviour, the most famous of these being the prisoners dilemma (Poundstone 1992). In this game two prisoners awaiting interrogation must decide whether to confess or remain silent, knowing the response of their colleague will affect their own sentence. If both prisoners 'hang tough' and remain silent both will get a short sentence, if one confesses and implicates the other, the confessor is released and the other gets life, and if both confess they both receive medium term sentences. The most successful option would be for both to 'hang tough' or cooperate.

Game theorists have designed numerous programmes to resolve the dilemma and Axelrod's (1984) model demonstrated that trust between the participants was the only means of unlocking the puzzle. Subsequently Frean's (Ridley 1996) programme of 'Firm but Fair' was found to be the most effective; co-operates with cooperators, punishes defectors but forgives them by returning to cooperation thereafter. The model eliminates 'hedonists' who pursue their own interests and 'suckers' who always cooperate and do not punish. Evolutionists use game theory to demonstrate that social agents make a fundamental difference to the complexity of the world, as individual moves are shaped by the moves of other individuals rather than following a predetermined code (Dennett 1995). Thus game theorists have undermined Wilson's more extreme theories and evolutionists went on to connect the outcomes with genetic development and the contradiction of why multi-celled organisms existed if the sole imperative of a gene is its survival (Dawkins 1989, Dennett 1995, Ridley 1996,).

Dawkins (1989) suggested that genes enter into cooperative cartels, a process which continues until the organism becomes extinct. Once acquainted the genes recognise

each other and automatically adopt a symbiotic relationship. He describes this arrangement as ‘nice guys finish first’ and draws on Trivers (1971) concept of reciprocal altruism to show how in nature different creatures co-operate. To Kellner (1998) this confirms that mutualism is ingrained in human nature and he uses Dawkins to offer the rallying call ‘*be selfish: trust each other*’ (1998:6). An objection to this analysis is that reciprocal altruism is enlightened self-interest and not mutualism, however Dennett (1995) rejects this as it misses the point that small steps are necessary to reach the ‘real McCoy’. Dawkins (1989) dismisses both hypotheses that humans are cooperators or competitors; instead he stresses our adaptive nature, influenced by genetics and culture. A perspective endorsed by Ridley (1996) who held that cooperation must be learnt and that language and the ability to communicate is fundamental to the ability to co-operate. Finally Dennett (1995) revisits Neumann, who believed that while competition in nature was inevitable it did not necessarily mean the survival of the fittest, organisms could design cooperative strategies, combining with chance to unleash the evolutionary eukaryotic revolution (Margulis 1981). In early history solitary prokaryotes cells were invaded by parasites who were actually *symbionts* and these cells became *mutualists* who joined forces to become the first multi-celled organisms, eukaryotics. In accepting this genetic transformation Dennett (1995) shows that external factors, whether they be chance or culture do affect our development. Dismissing Wilson he cogently states that genes interact to create policies of cooperation, but that was and is different from genes being the beneficiary of this cooperation. Anything can and does happen. Unfortunately Kellner assumed cooperation was genetically probable as opposed to possible, which the literature indicates.

For Rodgers (1999) cooperation is mutually beneficial and necessary for sustainability, which is only attainable if there is a balance between liberalism and authoritarianism, the outcome of which is solidarity. Sociologically this position was first articulated by Durkheim (1964 [1893]) when he suggested that intermediate groups should stand between the state and the individual, through which reciprocal interdependence would be practised. Unknowingly unacknowledged Durkheim is arguably the intellectual antecedent of the New Mutualists. Kellner’s (1998) emphasis on mutual rights and responsibilities and reciprocal obligations between state and citizen reflect this Durkheimian tradition. Even when calling this an ‘ethical’ imperative – it’s good to

cooperate – he employs evolutionist and sociological rather than philosophical or theological principles. Other new mutualists (Rodgers 1999, Hargreaves 1999b, and Birchall 2001) strengthen their Durkheimian stance to compensate for a reduced reliance on socio-biology. Rodgers seeks a greater role for education, as innate abilities require stimulation. Part of these stimuli arise from exchange, which is the raw material for trust, and institutions that pervert this training are acting against cooperation. Clearly Rodgers intertwines genetics and Durkheimian perspectives on the importance of social relationships for society. Birchall and Hargreaves were more explicitly Durkheimian in arguing for a need for intermediaries between the public and private sectors to revitalise civil liberalism. Morally mutualism is seen as ‘good’ but Rodgers warns that collaboration may be negative, hence the need for democracy to control abuses of power.

For New Mutualists mutuality is natural but requires stimulation to be fulfilled, usually through education and exchange whereby trust can be developed.

## **2.4 Mutuality and the sociology of trust**

Operating independently of New Mutualism, sociology has rediscovered an interest in social cohesion, whether through social capital (Putnam 1993), identity and risk aversion (Giddens 1984), or trust (Miztal 1996, Fukuyama 1995). It is the latter which most closely reflects the implied discourse within New Mutualism, being a necessary component of mutuality.

### **2.4.1 Theorising a sociology of trust**

Trust is often explained by its social benefits and the properties they encompass (Miztal 1996). At an individual level it is a prerequisite for self identity (Habermas 1987), whilst interpersonally it is necessary to foster democratic values and civic community (Putnam 1993); its absence would result in a society where all relations were fleeting and risky (Luhmann 1979). Definitions are hindered by its linguistic interchange with faith, cooperation, confidence, exchange and reciprocity (Miztal 1996). An alternative narrow interpretation follows Simmel (1950 [1908]) to argue that it has an ‘irreducible core’ which involves a leap of faith (Giddens 1990, Möllering

2001). Often confused with trust is confidence, which is more habitual and less evaluative (Misztal 1996). Habit itself forms an important feature of reciprocity being reliant on mutual exchanges over a non-immediate timeframe (Mauß 1970, Camic 1986). Reciprocity may not be present in interpersonal relations in modern society, resulting in a different form of trust than found in previous eras (Giddens 1991). Giddens' erstwhile historicism, lacking any empirical evidence, confuses trust with reciprocity, perceiving changes in the latter as the evolution of the former. In economics, trust is a specific feature of exchange relationships necessary for efficiency (Fukuyama 1995), while *'cooperation is seen as a by-product of trust rather than a source of trust and, moreover, a lack of cooperation can be a result of other factors...rather than an absence of trust'* (Misztal 1986:17). These myriad of interpretations and uses of trust have both broadened its applicability and lessened any understanding. To help inform our knowledge of mutuality and its intimacy with trust the remainder of this section will attempt to discern the major themes in the trust literature and how these have been applied.

The connection between trust and social harmony, previously alluded to, originated from the utilitarians. They believed social order was the result of mutual dependence with obligations resolved by bargaining. Therefore trust was a rational choice made by social actors to minimise social disharmony. In this context trust is an extension of egoism, being merely a means to achieve one's own objectives (Coleman 1990) and as the benefits of trusting exceed those of breaching or not trusting, trustworthiness is a valuable attribute (Blau 1989, Gambetta 1988). A societal interpretation sees trust as a vital lubricant for exchange (Arrow 1974) as it promises credibility, operates as a code of honour (Elster 1989), and overcomes the unobservable in many transactions (Dasgupta 1988). Apart from its tendency to tautology, rational choice theory excludes anything but opportunistic behaviour rendering honesty and altruism as untrustworthy (Misztal 1996).

Doubting its rationality, Möllering (2001) argued trust was based upon weak objectivity (Williamson 1993) and contained a 'leap of faith' originally identified by Simmel (1950 [1908]). Simmel believed 'suspension' would be more extensive due to the lack of knowledge inherent in impersonal trust (Frankel 1977, Möllering (2001). Möllering stated that trust resides between knowledge and ignorance, as it is unnecessary for the



former and the latter is reliant on confidence. For impersonal trust to be effective it requires 'suspension' alongside the efficacy of normative sanctions, thus detaching egoistic motives from successful relations (Gambetta 1988).

Möllering's analysis drew upon the functionalist and Simmelian influenced perspective of Luhmann (1979), who argued that trust reduced complexity by increasing tolerance of uncertainty while resting on confidence to operate. To Luhmann trust resides in an actor's ability to read meaning and a rational perception that our ability to function rests on 'trust in trust', which is the cognitive basis of trust. Confidence is required to confront societal risks whilst trust enables risks to be taken, thereby increasing confidence, and creating a virtuous circle. However, trust being partially reliant on experience cannot be artificially created. Luhmann's epistemological and ontological transdentialism (Möllering 2001) enriches our understanding of trust by distinguishing it from confidence. This enabled Möllering to further develop his concept of suspension although Misztal (1996) criticised Luhmann's separation of trust from its objectives, arguing these informed how we trust. Unfortunately Misztal confuses objective with definition and refuses to accept that both trust and its purposes are socially constructed.

Luhmann implies that trust requires a degree of predictability to be effective, a point endorsed by Weber, Gambetta, and Giddens. From a rationalist perspective Weber (1968 [1922]) stated that it was in individual's self interest to trust as this contributed to the predictability of behaviour and by implication the efficiency of economic actors. Lewis and Weigert (1985) held that trust *'allows social interaction to proceed in a simple and confident basis, where, in the absence of trust, the monstrous complexity faced by contingent futures would again return to paralyse action'* (1985:969). Partially endorsing this, Misztal considered trust played a *'significant role in any exchange where each partner has clear expectations of the other, and where there is a time lapse between the exchange of goods or services'* (1986:17).

As Simmel (1978 [1908]) demonstrated, predictability was important for inanimate objects, as money relied on trust for its continued legitimacy. Historically this was predicated on reciprocity between actors, beginning with barter before more sophisticated means of exchange were gradually introduced. This normative basis for trust echoes Durkheim's (1964 [1893]) dualism of self-interest and altruistic-idealistic

action, the latter of which was the reciprocal bonds and relationships within society. Durkheim's argument that in a well integrated society we can trust each other because we have common morality and norms is questioned by Misztal, who ponders the purpose of trust if behaviour can be predicted. Furthermore Abercrombie et al. (1990) expressed concern that Durkheim's reliance on normative values would reinforce the existing conservative consensus.

Misztal returns to the objective of social harmony and perceives trust as a coping strategy to overcome the arbitrary nature of social reality, implying the necessity of limited predictability. Misztal's criticism of norms influencing trust counterpoises her endorsement of Bourdieu's (1977) dialectic between *objective structure and subjective perception*, in which the past survives and is perpetuated by the present. This inherited experience is a system of 'durable transposable dispositions' (1977:72) which shape and are shaped by the present. Thus trust is a social action which helps maintain the fiction of order because it functions (Elster 1989) and this fictive stability assists the rationality of risk taking (Luhmann 1988), and ontological security (Giddens 1984). Without predictability of daily encounters deep-seated anxiety will prevail, which undermines trust (Giddens 1990).

What unite most analyses of trust are the acceptance that trust is future oriented and a '*state of favourable expectations regarding other people's actions and intentions*' (Möllering 2001:404). Hence trust is perceived functionally as the outcome of expectation. Möllering cogently suggests that trust is more than interpretation based on imperfect knowledge, but emphasises 'suspension' which enables the transfer from interpretation to expectation. This mental leap distinguishes trust from rational choice or blind hope, representing the '*unknown, unknowable and unresolved*' (2001:414). However, though distinctive suspension and interpretation operate in tandem as a leap '*cannot be made from nowhere, nor from anywhere*' (p414). Once a leap is made the land of expectation becomes interpretation and a new leap is required, reflecting trust's dynamic and reflexive nature. Möllering's hermeneutic approach renders models of trust based on objective irrelevant, and assumes there are no automatic links between good reasons and a favourable outcome. Trust is based on a combination of rational assessment, cultural norms, predictability, and experience both genuine and perceived. These interact differently depending on the nature of the 'trust transaction'. Although,

this definition assumes trust is not reciprocity, habit, cooperation or blind faith, it is likely to be intimately involved in the first two and necessary for the third. Therefore trust is not mutuality but a component of it.

## 2.4.2 Trust in practice

Sociologists have also been concerned with how trust has been transformed during modernisation. For example Giddens believes that the complexity of modern society has directly affected the nature of trust, which has been reformulated in response to the loosening of societal bonds. This narrative originated with Tönnies (1955 [1887]) who thought that rational and instrumental social relations, resulting in the imposition of rules and the loss of freedom, would replace the shared experiences and familiarity of *gemeinschaft*. The impersonalised *gesellschaft* of exchange relations will become reliant on 'trust' in professional experts. Ultimately this divorce of the personal and professional will erode standards and social cohesion, as superficial politeness would mask manipulation and deception. Tönnies faced criticism for romanticising *gemeinschaft* (Fletcher 1971) and for not understanding that social order required impersonal trust founded on moral standards (Durkheim 1964 [1893]). Despite these criticisms Tönnies' discourse remains intuitively potent, with the credit union movement fearful of losing a sense of community as organisations grow (see chapter 4).

In contemporary sociology Misztal (1996) links the depth of *gemeinschaft* to friendship and passion, and shares with Zucker (1986) and Giddens (1991) a belief that *this is the purest trust*, but its pursuit leads to a withdrawal from public life, undermining interpersonal trust (Sennett 1974). Paradoxically despite the compression of time and distance, the attainment of pure trust remains elusive as self-absorption was leading to narcissism rather than an awareness of others (Etzioni 1993). Ironically the reliance on *gesellschaft* enhanced the desirability of the emotional skills immanent in *gemeinschaft*.

In discussing the changing nature of society Durkheim, Weber and Giddens all suggested that increasing rationality has fundamentally altered relationships and forcing trust to be reconstituted. Lockwood (1992) suggested that Durkheim's view that trust could be assessed through the motivations was too simplistic, as values are often obscure or disputed. By contrast Weber (1968 [1922]) held that all meanings were

socially constructed, but that individualisation and rationalisation were creating new solidarities in which pre-modern shared beliefs were systematically replaced by mutual interest and functional interdependence; essential for the success of capitalism. To Weber there were only four types of action and from these in only two cases were trust and confidence self-reinforcing: 'affectual' action comes from faith and emotions and was therefore uncontrollable; 'value-rational' action was based on trust in virtue, which is learned and motivated by honour. For Weber this was irrational because it was unreflective. Thirdly, 'traditional' actions which he considered automatic enshrining stability and uniformity, were based upon conformity and were therefore self-reinforcing. Finally, 'rational' action predicated on mutual self-interest was the most reliable approach in modern societies. Though its sustainability in an individualistic society would require agreed rules for legitimacy (Albrow 1990), Weber feared instrumentalism and bureaucratisation would result in disenchantment and *'legitimacy without trust'* (Pakulski 1992:24). By weakening Tönnies' distinction between associative and communal relationships, Weber allows for a complex differentiation between interpersonal and abstract trust (Misztal 1996). Thus Weber reconciles the detachment of institutional trust by incorporating predictability, which minimises conflict and prevents the instrumentalism of rationality.

Giddens (1990) perceives the trust environment as determined by the dialectic of modernity. Despite arguing that the norms promoted by Weber were under attack from distanciation, disembedding and reflexivity caused by an increase in low probability high consequence risk, Giddens remained optimistic that individuals would not be reduced to passivism and anomie. He suggests modern trust in persons has to be *'worked out'* as individuals *'open out to each other'* and attempt to *'win trust'* (1990:121). Running counter to Sennett (1974), this intimacy creates reflexivity and a new social action. This is more urgent in late modern society where trust in expert systems has declined as risks are external of established control mechanisms and have become intertwined with personal life (for example the effects of genetically modified crops) thereby undermining ontological security.

Ostram (1990) acknowledged asymmetries in information inherent in modern societies create uncertainty, thus collective organisations such as building societies need contingent strategies to ensure long term commitments. At their most effective

participants internalise and adopt norms of behaviour that reduce the costs of monitoring. Prior to adaptive behaviour, individuals overcome asymmetries of knowledge by assessing an organisation's reputation. Mutuals have long understood this, promoting themselves as more trustworthy and reliable than investor owned companies. However, as Giddens highlights, trust in experts is diminishing as knowledge becomes more specialised; in excluded communities where individuals have no external reputation credit unions function on the basis of accumulation of internal reputation (Ward and Jenkins 1984). Thus reputation is moral; being based on opinion, connected to reciprocity and is maintained by shared values, social conformity, and formal control. Reputation can at one extreme be based on Veblen's (1959) analysis that wealth should be displayed via conspicuous consumption, or possibly the standards of 'beyond reproach' prevalent in many professions. Increasingly reputation is justified in rational economic terms, either as a means to reduce transaction costs (Newbery and Stiglitz 1971) or the use of brand names to counteract product homogeneity (Akelof 1984). Alternatively reputation may be transformed and have a transformative effect on the market place through changes in technology (Misztal 1996).

In the context of mutuality, trust within this thesis has been employed in Simmelian terms, assuming it is a process of actual behaviour (Möllering 2001) not an outcome of that process (Luhmann 1988, Misztal 1996). Though perspectives enable us to understand how trust is altered in differing circumstances, they confuse the production of trust with the activity of trust. Rather trust has become more complex to practice in modern societies, while with the shift to abstract trust there has been an increasing reliance on 'suspension'. To alleviate the uncertainty associated with abstract trust it relies on reputation alongside cultural norms and education. The alleged erosion of trustworthiness during this generation has paralleled the decline of these aspects of trust. Moreover, the alienation attached to this development has resulted in a pursuit of a re-conceptualised purer form of trust, found in pre-modern society and intimate friendships.

## **2.5 Conceptualising Mutuality**

Much of the reviewed literature concentrates on the justification for mutuality, which is

usually solidarity and/or social cohesion. This ranges from the utopian perspective of More, who believed mutuality would bring stability, to Kropotkin and Owen's beliefs in a better society, through to the New Mutualists' search for a cohesion aimed at superseding the individualism of Thatcherism. Despite the absence of a prime source within the literature a series of discourses frequently reappear which indicate that mutuality is constructed from interrelated component factors: trust, reciprocity or habit, longevity, and caution.

Kropotkin stressed trust as central to mutuality, a view endorsed by Leadbeater and Christie (1999) who argued it enabled mutualism to function by securing commitment. Similar views were expressed by Hargreaves (1999) and Rodgers (1999), who stated that once established trust was a social commodity that could be traded. Within this framework trust is conceptualised as '*fictive stability*' (Elster 1989), possessing an irreducible core (Giddens 1990) of '*suspension*' (Möllering 2001). Though narrowly drawn this releases trust from excessive association, resulting in an ill-defined and elusive concept.

Related to trust, but distinctive (Mistral 1996) is habit, which Mauss ([1925] 1970) saw as part of reciprocity (Camic 1986). Winstanley, and latterly Durkheim through his 'reciprocal interdependence', and Weber's 'traditional trust', all held that habit enabled trust to function, a view more recently endorsed by Luhmann (1979). New Mutualists (Birchall 2001) believed that everyday repetitive habitual behaviour secured mutuality. Similarly, game theorists and evolutionists (Dawkins 1989), thought cells continued to cooperate once they knew how each other would operate. However, Giddens (1984) argues that this personal reciprocity has been supplanted in modern societies by impersonal trust, based on reflective knowledge and reputation. Additionally, Trivers (1971) linked reciprocal trust with self-interest, therefore reciprocity and trust alone is insufficient for mutuality.

Though it may be impossible to eliminate self-interest, Kitchner (1993) argued that the more casual the relationship, the less likely people were to co-operate, indicating that long-term relationships may offset egotism. The importance of longevity was highlighted by Fourier, and Mauss (1970 [1925]) noted that mutuality required an 'indefinite timeframe'. These views were reaffirmed by New Mutualists as developing

understanding requires longevity (Kellner 1998, Hargreaves 1999, Michie 1999, Rodgers 1999), which stands in contrast to anomie outlined by Durkheim and Giddens. Ostram (1990) went further, arguing that longevity was required to overcome uncertainty, reducing the costs of trust through participants gradually internalising norms. Hence longevity is an essential component of mutuality.

The final component is 'caution'. Building on Fourier's belief in stepped transition and Kropotkin's evolutionary progress, both assume that mutuality is most effective when it proceeds steadily. Further, it assumes that trust is not blind hope but a combination of anticipation and expectation bridged by small acts of 'suspension' (Möllering 2001). This transition can be aided if there is a sense of predictability (Luhmann 1979) about the process, if not the outcome. Therefore predictability is described as the lubricant for cooperation (Gambetta 1988, Lewis and Weigert 1985). By implication predictability entails a degree of caution, for it proceeds on the basis of limited knowledge. For mutuality, a cautious approach can reduce complex and high-risk strategies with uncertain outcomes to small manageable steps towards trust. Caution should not be mistaken for risk avoidance, rather it seeks an accommodation. Kellner (1999) describes mutuality as a *'philosophy for a fallible world. It accepts that people, enterprises and public institutions are all liable to make mistakes.'* (1999:xxiii). Kellner does not seek the elimination of errors nor does he advocate unlimited risk, instead he calls for the space for humans to make mistakes. Based on choice, mutuality does not seek the security of universalism endorsed by a state socialist approach, nor does it desire the unfettered excesses of private risk taking. Instead it desires a limited dynamism avoiding the ossification prevalent in universal security, while anticipating and mitigating the most identifiable risks. Thus caution embodies the patient and expected action exemplified in mutual relations. With competing risks and opportunities, caution enables social actors to make the leap in trust by offering a lower threshold for commitment without the loss of ontological security caused by anxiety and inaction. Although this may suggest that mutuality is more relevant in modern society, this may be undermined if individuals no longer seek communal relations or reduce their interaction.

## 2.6 Cooperative Literature

Cooperation is invariably used when discussing the cooperative movement, which is generally perceived as originating with the Rochdale Pioneers (Carr Saunders et al. 1938, Fay 1939, Cole 1944). The movement involves the undertaking of shared action to achieve a desired goal (Jary and Jary 1991). In contrast mutuality originates from the French *'mutualité and the activity in insurance through which collective action benefits the individual. Thus cooperatives may act mutually but mutuality is not the exclusive domain of cooperatives'* (Fay 1939:36-37). Consequently the Cooperative movement contains the strength and weakness of a specific implemented form of mutuality.

One feature of cooperative writing is the continual debate between idealism and pragmatism (King 1947, Fauquet 1951, Gurney 1996), becoming increasingly prevalent from the 1960s onwards when competition from the private sector eroded profits and resulted in a consolidation of the decision making process (Brazada & Schediwy 1989). Debates regarding the 'soul' of cooperatives ranged from the conservatism of Schulze-Delitzch (Lambert 1963) and the pragmatism of Fauquet and Birchall (1997b) who argued that only the acceptance of cooperatives as part of the capitalist system had any contact with the *'real world'*. Meanwhile idealists despaired at the instrumentalism (Cole 1944) of cooperators:

*'..the term cooperation was used in the sense of communism. From implying concert of life in community it came to mean concert in shopkeeping. It was a great descent from the imperial attitude of world making to selling long-sixteen candles and treacle.'*  
(Holyoake 1879:41)

Holyoake's frustration at the intellectual decline of cooperation since the Owenite 'enthusiastic period' (Holyoake 1879:29) was shared by Gide, Fay (1939), and Carr-Saunders et al. (1938) who believed the Rochdale Pioneers were not a revolution, but a reconciliation of private interest with public good, as the market advance of cooperatives resulted in detachment from profit elimination and profit sharing, and a more business-like approach was adopted. In critiquing the sterility of this debate, Mellor et al. (1988) identified three narratives to explain the role of cooperatives:



*'(i) as agents of social stability, (ii) as one method of working within a plurality of organizational structures, and (iii) as the traditional 'shining light' for a new society.'*  
(Mellor et al. 1988: 178-9)

They proceeded to argue that (i) reduced cooperatives to a conventional business, (ii) was superficially attractive because it was the middle ground, but again sacrificed cooperative principles for business, and finally unlike the claims of idealists (iii) most producer cooperatives were interested in job creation or survival, not social change.

### 2.6.1 Philosophy of Cooperation

Birchall (1997b) thought that cooperation originated in the relationship of the 'first order values', of liberty, equality, and solidarity, and that these were sometimes 'antinomic' resulting in different types of cooperatives. Being a practical philosophy, cooperation is constrained by ethical considerations of honesty, openness, social responsibility, and caring for others. These political and ethical values are supported by the second order values of democracy, equity, self-help and self-reliance.

Birchall describes these as the principles of cooperation and from the literature there are three approaches to their identification. The first is the inductive, or 'evolutionary approach', in which the motives of the originators of cooperation are examined for generalist principles. Unfortunately these principles can become idealised and normative, which can detrimentally affect the development of cooperatives in other cultures. A second approach is organisational, assuming the ownership structure is the distinctive feature of all mutuals. Parnell (1995) is the most prominent of these theorists, calling them 'people centred businesses', and arguing that democratic control is the means to this end. Taking a less zealous tactic this group still reflect many of the principles identified by inductive approach and are closely associated with the New Mutualists, having the strength of inclusivity and flexibility, and the potential weakness of irrelevance and meaninglessness. The third approach prioritises a specific political value and eventually ending with a cooperative outcome. A benefit of this method is that cooperatives can be evaluated against an objective, but this carries the risk of the cooperative failing to fulfil an externally imposed value.

After reviewing all three options Birchall reverts to the inductive approach for his own analysis. To minimise the criticism of being normative, he interprets the principles broadly and consequently drifts towards the stance of Parnell, exposing contradictions that he only partially resolves. For example, in justifying the cooperative status of producer coops, he states that restricted membership is allowed providing it does not include *'irrelevant attributes such as gender or ethnicity'* (Birchall 1997b: 51). It is also acceptable in cooperatives that serve *'disadvantaged'* groups as *'open membership points to the first order value of equality'* (Birchall 1997b:51), and collective membership grants individuals *'mutual strength'*. Using Birchall's own taxonomy of cooperation two difficulties arise. First, a closed membership is opposed to the ethical value of openness and second, as Gide and later Lambert argue it fails on the issue of social responsibility. Social responsibility requires openness to the whole of society not an isolated enclave, otherwise it is possible the co-op will pursue their own objectives at the expense of society. Evidence of this was found by Togerson et al (1997) when they examined the behaviour of the North American farming cooperatives. Birchall's error is to use *'mutual strength'* rather than Kropotkin's *'mutual aid'*. In this analysis mutual strength implies that there is a social actor who is the *'victim'* due to their weakness in relation to the cooperative. While this may be deemed acceptable if the social actor is an agent of the state or capitalism it becomes more problematic when considering individuals who do not wish to join the cooperative. For example should a cooperative be considered acting in the public good, if as a by-product of its mutual strength it causes the marginalisation and deprivation of those individuals who through exercising their free will chose not to participate in the cooperative? By contrast mutual aid assumes assistance and does not preclude non-members from benefiting. Moreover it allows collective and indeed sometimes closed action because it benefits society in general.

However, excessive criticism of Birchall is unjustified, as his classification did attempt to disentangle the philosophy from the practice of cooperatives, a task many others have failed to achieve. Instead, most writers have produced lists of cooperative principles often with minimal discussion regarding how these are related. Table 2.1 outlines some of these lists, but does indicate some commonality particularly around stability, solidarity, equity through collective economics, democracy, education and ownership.

**Table 2-1: Typology of approaches and main principles of cooperation by author**

Author	Main principles of cooperation raised
Bucheze (1831)	Democracy, and profits to be divided equally except 20% for the poor
Rochdale Pioneers (1854)	Democracy, freedom to join, limited interest on capital, distribution of surplus in proportion to purchase, cash purchase and sale, purity and quality of products, education, neutrality, sale at market prices, voluntary membership
Fauquet (1951)	Self help, volunteerism, mutual aid, democratic autonomy, the abolition of profit (in producer cooperatives they should be restricted by only taking what was 'necessary' otherwise they would be acting against the general good), educational purposes to achieve 'moral excellence', socialist in nature (human not capital focused with advancement by mutual help), and striving to conquer (change the world).
Schulze-Delitzch (cited in Lambert 1963)	Self-help, association, and merging of dual qualities of member and user.
Lambert (1963)	Endorsed those of Rochdale Pioneers and added disposal of redundant cooperative without benefits to members, promotion of members only to extent that is consistent with interest of community, and the goal of the cooperative commonwealth.
Bonner (1970)	Open membership, democratic control, dividend, limited interest on capital, political and religious neutrality, cash trading and education
Scharrs (1978)	Not-for-profit enterprise which was voluntarily owned, controlled and operated by or on behalf of members. Cooperatives encourage diversity, fairness and competition as a public interest philosophy
Groves (1985)	Summarising American analysis of cooperatives Groves noted the commonality of democracy, limited return on equity, education, benefits in proportion to use, and fiscal prudence.
International Cooperative Alliance (ICA) (MacPherson 1996)	Voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education training and information, cooperation among cooperatives, concern for community. Supporting these were the principles of self-help, self-responsibility, democracy, equality, equity and solidarity.

## 2.6.2 Stability

From King, who inspired the Rochdale Pioneers, through to the ICA re-formulation of the principles in 1995 (Birchall 1997b), the implied goal was to create a society, whether new or within the current environment, built on an understanding that individuals were continually exposed to the vagaries of capitalism unless they united

and established an alternative and reliable support network (Groves 1985). This search for collective self-help was exemplified in the preamble to the Pioneers' principles:

*'The objects of this society are to form arrangements for the pecuniary benefit and improvement of the social and domestic condition of its members'* (cited in Laidler 1968:681)

In contemporary cooperative literature this stability is articulated through a public interest discourse. Arguments draw on the cooperative principle of open membership (Lambert 1963) and more explicitly by providing ethical competition for the capitalist sector (Llewellyn 1997). Restricting membership access can result in cooperatives especially producer cooperatives duplicating the anti-competitive practices found in cartels. To avoid this an open-door policy was adopted which is common within consumer cooperatives. It is the establishment of these organisations that represent the paradigm shift in economic ownership, as while producer cooperatives may replicate the behaviour of capitalist organisations, it is only cooperative organisations which aim at unfettered shares in ownership that offer an alternative economic form. This is more powerful because the least powerful actor within the capitalist system, the consumer, becomes the owner within an open cooperative mutual system. Under a cooperative society informed consumers will only want what they need and have no reason to artificially stimulate demand for unnecessary goods (Carr-Saunders 1938, Fay 1939). Producers being specialists have no affinity with each other and only combine in opposition to something; consequently social stability favours consumer cooperatives (Fay 1939). Thus while a consumer cooperative society would be rational, efficient, eco-friendly, inclusive and harmonious; producer cooperatives share all the disadvantages of capitalist entities, especially when they are created to maximise the benefits of members at the expense of non-members. The risks of maintaining the supremacy of consumer cooperatives may result in the subjugation of producers, thus losing the premise of equality (Mellor et al. 1988). If this occurs it becomes irrelevant to employees whether they are employed by capitalists or cooperators (Fay 1939).

*'Now, man as a whole – the moral man – cannot be indifferent to the ways that were followed to satisfy the consumer. Does one dream of reaching a low price for products by re-establishing the working conditions of the nineteenth century or by aggravating*

*the exploitation of the colonial people?' (Lambert 1963:163)*

Nor would consumers necessarily manage the most appropriate outcomes for the economy. A desire for instant gratification or luxury items may divert the economy from delivery of core needs. Consequently the power of consumers can never be absolute, there must be a place for producer democracy, but '*the consumer must be present at all stages of the economic decision*' and its interest should '*never be inferior to producers*' (Lambert 1963:165).

Fortunately cooperators could overlook the complexity of the open membership principle and employ the market variation argument. In this cooperation benefits the capitalist market as its production reflects genuine demand, not inflated demand driven by a thirst for profit and causing over production (Lambert 1963). This is a variation on Laidlaw's maxim that cooperatives help keep the market honest (Groves 1985), a perspective later endorsed by the Building Societies Association (Llewellyn 1997) when petitioning the government for legislative protection in 1999.

### 2.6.3 Solidarity

A communistic society based on mutual relations requires solidarity between the constituent parties and this could be achieved either through community, cooperation or association (Goodwin and Taylor 1982). For cooperators the choice was between serving specific localities, or serving the broader community through association. In adopting an inclusive approach cooperatives, through open and voluntary membership, became mutual organisations breaking from the conservative insularity of communities. According to Owen and Kropotkin the motivation for solidarity is explained respectively by rationality or evolutionary responses. What neither author resolves conclusively is its maintenance even in circumstances where the individual may benefit more by breaching the collective will. In addressing this issue Fay (1939) believes that the solidarity of cooperation arises due to its '*duality*' (p38) because at its most advanced it serves consumers and producers. In Fay's analysis, solidarity of cooperation is only achieved when the consumer and producer voluntarily accept their interdependence. In a cooperative society the solidarity is rooted in the understanding that people are both wage earners and consumers, placing a priority on fairness in both

consumer prices and wages. Hence solidarity helps hermetically seal cooperation. Gurney (1996) describes this as the *'art of association'* (p25). However, if solidarity is solely employed by either consumer or producer cooperatives, by granting one supremacy the impact will be negative (Lambert 1963). In a capitalist economy sustaining solidarity becomes problematic due to the increasing heterogeneity of its members (Groves 1985) and through individualism, which loosens social bonds and commitments: *'too much emphasis on freedom, choice, and flexibility could mean lack of commitment to people, inviting a lack of commitment in return'* (Handy 1989:262).

#### 2.6.4 Equity Through Collective Economics

Achieving a stable society by employing solidarity requires a collective means of accumulation and distribution of economic resources. What distinguishes cooperative from other economic forms is the morality involved in their economic exchanges (Watkins 1986). Again the Rochdale Pioneers instigated this with their insistence on providing pure and unadulterated goods (Birchall 1997a). The 'dividend', a common feature of consumer cooperatives (Birchall 1997a), is another example of strong moral intervention, as it is based on the principle that surpluses should be distributed proportionally to the use of services (MacPherson 1996). This form of equity originated with Proudhon's liberal mutual perspective in which economics and social justice were systematically interwoven. Later Marshall returns to this topic describing cooperatives as seeking an 'uneasy equilibrium of opposites' (1981:129) between the market and the state, thereby producing a *'rough equality'* (Birchall 1988a:53). According to Mercer (1995) and Watkins (1986) equity through collective economics was one of the universal principles of cooperation proposed by the Rochdale Pioneers. More recently Parnell (1995) stressed that cooperatives should serve the people involved in the enterprise not, as in shareholder owned companies, the investors. A view drawn from Proudhon's belief that property held by a few was theft, yet owned by the many who had previously been excluded was freedom (Birchall 1988a).

Morality and the avoidance of being beholden to financiers also extends to raising capital by lowering its costs, with cooperatives only offering 'limited interest on share capital', which remained an ICA principle until 1995. Its replacement, 'member economic participation', embodies its essence and extends it beyond the previous

principle by including members contributing to and controlling the capital of cooperatives. To MacPherson this ensured that *'capital is the servant, not the master of the organisation. Cooperatives exist to meet the needs of the people'* (1996:19)

### 2.6.5 Democracy

If members are to control the capital assets of their cooperatives a system of democratic accountability is required. Lambert 1963 and the ICA (Birchall 1997b) emphasised the centrality of democracy to sustainable cooperatives (Groves 1985). Its operationalisation is sometimes problematic as it may be a *'key element'* but its effective implementation is not *'inevitable'* (Mellor et al 1988:175). To Gide it was the *'cardinal principle'*, which made it distinctive from capitalism and members had a duty to vote and use its services (cited in Lambert 1963:66). Clearly the weakness with democracy as social glue is the very fractious behaviour it engenders. As will be discussed in future chapters the implementation and maintenance of democracy has been an area of considerable debate. However, it should not be forgotten that cooperation, unlike capitalism, does proffer rights on people in the economic sphere (Birchall 1997b), what Gide described as *'economic emancipation'* (Lambert 1963).

### 2.6.6 Education

From the beginning of the cooperative movement a premium has been placed on the education of members. In examining the formative years of cooperation Gurney demonstrated that the leadership's desire to unite the members behind a moral economy required *'educating the working class through a 'dialogical' association – one which not only aggregated the individual resources of its members but also defined a collective identity'* (1996:24)

Education went beyond the pursuit of homogeneity, being necessary for effective operationalisation of cooperation (Bonner 1970) and the need to reduce *'unreasonable irrationalities of taste'* (Lambert 1963:144). These perspectives were summarised at the 1951 Cooperative Congress:

*'If the mass of your members are not sufficiently instructed in economic science ... & in particular, knowledge of what you aim at and how you seek it ... there arises a real*

*danger to the Cooperative movement, that your numbers become a hindrance and your possessions a peril ... Your movement is a democratic movement, if ever there was one. It therefore cannot repose on the good sense of the masses of your people'* (Prof. James Stuart cited in Watkins 1986:22)

Two issues emerge from the literature regarding education: first, the acknowledgement that as cooperation is unlikely to be taught in schools so cooperators have an obligation to educate; second is the concern about maintaining cooperative values and behaviour. Sociologically the importance of education suggests connections to reciprocity through habit and custom.

### 2.6.7 Ownership

Adjacent to these cooperative themes and objectives is the vexatious issue of ownership. It could be argued that many of the present difficulties with demutualisations are an outcome of failure to fully address this matter. However, this is an injustice to Buchez, other French cooperative writers, such as Pouision, Faquet and Lambert, and the Rochdale Pioneers. In 1831, Buchez foresaw the eventual decline of larger cooperatives and suggested the principle of 'non-transferability', where the individual could withdraw but the cooperative must be perpetual to allow new members to benefit:

*'The registered capital, ... would be untransferable [sic]; it would be property of the association which would be declared indissoluble, not because individuals could not leave it, but because the society would be made perpetual by continually admitting new members. In this way this capital would belong to no one person.... If it were otherwise the association would become similar to any other business company; it would be useful only to the founders and prejudicial to those that did not belong to it from the first; for it would end in being a means of swindling in the hands of the former'* (Buchez 1831:37).

Though Buchez could not guarantee that a cooperative could survive in perpetuity, Lambert (1963) interprets this to mean that the assets would be transferred, not to current members but another cooperative:

*'Being a Saint-Simonian, Buchez is fully aware that, should his system end in again*



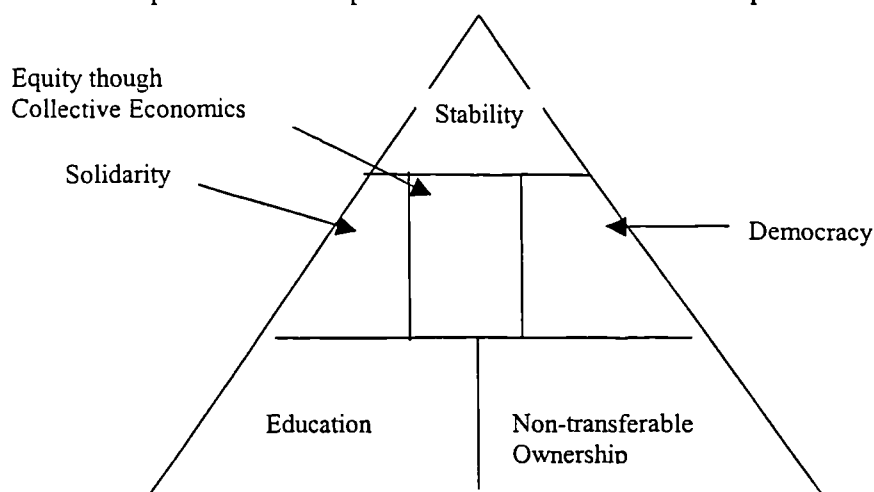
*calling to life the motives of acquisition and selfishness, it is no use at all to start a cooperative action.* (Lambert 1963:54)

This process of disposal Lambert calls the *'disinterested transmission of net assets'*. The logic of this argument was discernable in amendment 44 of the Rochdale Pioneers constitution. Published in 1854 it stated: *'...and in the last place, in the repayment of all sums advanced by way of subscription as aforesaid, and the surplus (if any) of such property shall be applied by the trustees for the time being of the society to such charitable or public purposes as they think fit.'* Rochdale Pioneers Statutes 1854:44).

The virtual elimination of the principle in cooperative consciousness was due to the phenomenal success of cooperatives and their belief in invincibility, righteousness, and the inevitability of their success (Lambert 1963). On reflection modern cooperatives and mutuals have been challenged over ownership because they did not impose Buchez' principle, which was exacerbated by operating in a society where the capitalist construct predominated, effectively marginalizing alternative ownership perspectives.

## 2.6.8 Theorising cooperation

From the literature it is possible to compose a theoretical model of cooperation.



**Figure 2-1: A theoretical model of cooperation**

At its apex is stability which I have argued is the principle objective of practical cooperation. This is achieved through a combination of solidarity, collective economics and democracy. Solidarity is the process whereby individuals seek to co-operate with

other like-minded individuals to minimise risks. Equity through collective economics is the heart of cooperation producing a rough equality based on the premise of distribution linked to effort not ownership. It is possible for equity to be absent for modern mutuals in which member activity is passive, however economic fairness as an important differentiation from joint-stock companies. In the short-term it can on this model be replaced without affecting the structure but will ultimately result in complete destabilisation if another element is removed. With all collective action, it is probable that leadership will emerge or be required; the inclusion of democracy provides a source of accountability and ensures a 'fair' distribution of resources.

Finally the figure has the twin foundations of education and non-transferable ownership. Education teaches individuals the benefits of collective endeavour, while non-transferable ownership ensures that members have no pecuniary benefit in undermining democracy and destabilising the cooperative. By employing this model it is possible to assess the relative strengths of different cooperatives, and understand the specific challenges they need to address.

## **2.7 Summary and Tentative Conclusions**

With mutuality lacking a core literature I have drawn upon the work of utopian socialists, New Mutualists, and the sociology of trust. Apart from attempts to reintegrate mutuality into the English Socialist tradition (Cole 1944) and cooperative debates in Europe between Gide and Fauquet (Lambert 1963), as far as I am aware there were no significant attempts to theorise mutuality until the 1990s. Mutuality's rediscovery by the New Mutualists, coincided with an intellectual and political search for a more cohesive society following Thatcherism and the decline of grand narratives. Employing a Durkheimian discourse alongside a genetic imperative they argued that although mutuality was "natural", it required external stimulation to expand. Specifically this involved reciprocity and education. This interest in mutuality was mirrored in sociology with debates regarding the conceptualisation of trust. Sociologists perceived trust as an essential element in civic society (Giddens 1990, Putnam 1993), which resulted in a broad definition based on benefits (Misztal 1996) rather than process (Möllering 2001). By analysing trust as an act, 'leap of faith' or

‘suspension’, Möllering released trust from its more pejorative definitions, thus enabling a distinction between itself and related, but not identical, concepts of predictability and reciprocity.

By theorising the process of trust it was possible to examine the effects of trust in modern society. Tönnies view that trust weakened as communal bonds between individuals became more disparate, was challenged by Giddens, who argued that abstract trust would create new relationships based on a fuller understanding. However with asymmetries of information, trust required greater consistency in decision making (Ostram 1990) and therefore more ‘suspension’ (Möllering 2001). To achieve these requires a combination of reputation, cultural norms and education. Unfortunately, the alleged decline in trustworthiness has paralleled the erosion of these aspects of trust.

From these various literatures I developed a matrix of mutuality, comprising of four interdependent variables: trust, reciprocity, longevity, and caution. Trust is necessary to ensure decisions are made based on imperfect knowledge, while reciprocity (Mauss 1970) represents the obligations and habits (Camic 1986, Birchall 1988b), which are placed on all participants, and acts to deter any free-rider behaviour (Olson 1965). For mutuality to be effective each participant must make a chronological commitment, hence the inclusion of longevity. Caution enables trust to occur as it assumes a degree of predictability or minimisation of risk. Through these four elements mutuality can be practiced, and thereby create a mutual community.

Without fully exploring these components, the cooperative movement has developed a series of principles which reflect a practical version of mutuality. A cooperative model can be constructed which seeks to explain how mutuality is delivered. Beginning from the premise that the purpose of cooperation is stability and should work in the public interest, it is built on three pillars: of democracy, to ensure accountability; of equity through collective economics, for moral economic behaviour; and of solidarity through an open membership and the need for voluntary interdependence. Finally these pillars are supported by the foundations of education, to provide training in mutual behaviour; and non-transferable ownership, which ensures that current members cannot gain from the termination of the society. It is the latter element that has been omitted from most cooperative structures, which in building societies was because most were terminating

societies designed to release the capital to members.

## 3 History of British Financial Mutuals 1775-1979

This chapter tracks the changes in mutuality as Britain's financial mutuals evolved from their late eighteenth century *gemeinschaft* origins to a late twentieth century *gesellschaft* status. This process has not been without controversy and mutuals have attempted to maintain a sense of community, even as they grew into national organisations. For most of their history they have managed to successfully straddle these competing demands, but the breakdown in patriarchy and corporatism, a rise in consumerism, and a series of scandals, eventually weakened the bonds of mutuality between themselves and their members. As trust in building societies began to ebb, credit unions were being formed among excluded groups and were granted legal status in 1979. This chapter chronologically follows these developments from the birth of building societies in 1775, through to their growing crises in the 1970s, while the shorter final section discusses the establishment of credit unions.

The development of financial mutuals in Britain is unlike that experienced elsewhere in the Western world. Whilst other nations such as Australia, New Zealand, Ireland and Germany had building societies (Cleary 1965), none were as ingrained and protected by culture and legislation as those in the UK. In contrast, credit unions which have extensive coverage in the USA, Ireland, and much of the developing world, were only introduced into Britain in 1964 and involve less than 0.6% of the population (see table 4-4).<sup>2</sup>

### 3.1 Early History of Building Societies 1775-1900

#### 3.1.1 Origins: 1775-1835

Price (1958) argued building societies arose in response to a particular combination of events. These were the successful example of mutuality demonstrated by the friendly societies; notably the industrial revolution, which led to migration into cities where

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<sup>2</sup> There is a marked discrepancy between the Great Britain and United Kingdom figures due the popularity of credit unions in Northern Ireland, especially among the Catholic community (Berthoud and Hinton 1989).

housing was needed; and the evangelical revival which reminded people that:

*'they were spiritual beings, had inspired them with a desire, among other things, for home conditions better and worthier than had been known.'*

(Price 1958:13)

Cleary added that industrialisation had detached people from their kinship groups resulting in the creation of new social patterns. It is here that the historical accounts of Cleary, Price and Gosden (1973) become divorced from what can be described as the mythical accounts embodied by the writing of Barnes (1984). The historians argued that because of the relatively high cost of subscription to a building society, only the wealthier working class, such as artisans and innkeepers who often built houses for rent (probably the incipient middle class), could afford membership (Tomkins 1845). By contrast the mythological school painted building societies as working class temples of early socialism.

The earliest building societies were 'fully mutual' (Price 1958) and engaged in physical construction rather than merely the financial transaction. A group of men would come together and purchase land for development (the reviewed literature is silent on the role of women in building societies). They would pool regular savings until every member had a house built. This process would occur in stages whereby once they had saved enough for the construction of a single property they would draw lots to decide who would own the house (later this was replaced by an auction between members) and then begin work. This procedure would be repeated until all members had their own property, whereupon the society would close. Thus these organisations became known as terminating societies. Terminating building societies were risky ventures that relied on mutuality for their stability and security. To build and finance properties often took upwards of fifteen years (Cleary 1965), hence it was reliant on trust, in that those who were in receipt of a completed property would not default on further subscriptions, and it also required good fortune as it was common for members to fall ill and miss payments, or even die. What appears to have held the societies together was a strong collective community underpinned by a range of reciprocal measures. These may have included a weekly meeting in the pub to discuss progress, interlocking trading arrangements, and the sanction of social ostracism should default occur. Another

advantage a mutual building society had was the physicality of the final product. Though fraud did occur (Price 1958), a financial delinquent was forced to live in a community with his fellow members and that provided a strong social stimulus for continued membership.

The first recorded building society was formed at the Golden Cross Inn in Ketley, Birmingham in 1775 (Price 1958) (see Table3-1).

**Table 3-1 : The First Twenty Building Societies**

Formation	Name of society
Possibly 1775	Ketley's Building Society <sup>3</sup> , Birmingham
17 February 1779	Dudley Building Society
17 July 1781	Northwood's Building Society, Birmingham
3 October 1781	Amicable Building Society, Birmingham
December 1781	Deritend Building Society, Birmingham
Possibly 1785	Hill House Bank Building Club, Leeds
23 February 1785	Sarcen's Head Building Society, Birmingham
21 March 1785	Sarcen's Head (No.2) Building Society, Birmingham
13 April 1786	Dudley Arms Building Society
18 October 1791	Thomas Keeling's Building Society, Birmingham
18 October 1791	John Pritchett's Building Society, Birmingham
12 December 1791	Thomas Mantle's Building Society, Birmingham
11 June 1792	Droylsden Building Society, near Ashton-under-Lyne
24 October 1792	Rowley Regis Building Society, Staffs.
6 March 1793	Longridge Building Society, near Preston
1 June 1793	Horbury Building Society, near Wakefield
26 August 1793	John Arrowsmith's Building Society, The Dog, Preston
Early in 1794	Hawker's Building Society, Birmingham
Prior to 1795	Isaac Badge's Society, Dudley
Prior to 1795	John Marsh's Building Society, Dudley

Adapted from: Price 1958:59-62

Price (1958) suggested that Birmingham was the centre for building society incubation because it was an un-incorporated town and therefore free from restrictive guilds, allowing non-conformists to practice without punishment. Combined with its reputation as a town of small industries and skilful artisans, it was fertile territory for innovation within a booming economy. By 1825 there were 69 known societies and 848 by 1854, with 102 formed in 1846 alone (Cleary 1965).

<sup>3</sup> Hereafter the full title of a building society will use the proper name followed by BS, e.g. Planet BS

### 3.1.2 Development: 1836-1874

Arising in response to a social need, early building societies enjoyed a problematic legal title. Many registered as friendly societies either to secure exemption from Stamp Duty or to avoid official fear of sedition, by unregistered and secret societies (Cleary 1965). Legal recognition came with the 1836 Benefit Building Societies Act, which placed them under the provisions of existing friendly society legislation, including exemption from Stamp Duty (Gosden 1973). This action was not motivated by legal efficiency, rather the government wanted to eliminate the Savings Banks, whose popularity was harming the exchequer, and a concession on Stamp Duty to encourage building societies was comparatively cheaper (Gosden 1973). Over time the act became as disreputable as the motives that inspired it, with Price (1958) describing it as a legislative 'patchwork'.

Regardless of legal machinations, building societies were evolving into new forms in response to other factors: financial mismanagement by some societies (Price 1958); the difficulty faced by members wishing to leave because of the high price of "buy-out" (Cleary 1965); and the challenge of recruiting new members, who upon joining, had to match existing members investment (Gosden 1973). The problem of slow growth was resolved by introducing two classes of investor (shareholder-member and depositor) avoiding the requirement to match other members investment. Ultimately the solution of permanent societies was originally extemporised by James in 1845 (Cleary 1965). James' genius was to divide the interests of the investors and borrowers. Rejecting building societies' original motivations he asserted that it was possible that investors may not want to become borrowers, and may prefer a 'dividend'. Equally borrowers would rather repay a loan than save. Providing there was more received from investors than loans issued to borrowers, the society could survive in perpetuity (Cleary 1965). Today's permanent building societies all developed from this simple principle.

The first permanent society was the Metropolitan Equitable in 1845 (Cleary 1965), and these new organisations were not universally welcomed with claims they were vitiating mutuality:

*'In permanent societies this complete equality and mutuality has not hitherto existed.'*  
(Stone 1851:42).



The majority of societies prioritised the rights of investors whether through excessive interest rates for borrowers to ensure better returns for savers, or more dramatically, disenfranchising borrowers by classifying them as customers (Gosden 1973).

Consequently permanent societies gained a reputation as investment clubs rather than providers of dwellings by and for the '*industrious classes*' (Gosden 1973; RCFBBS 1872).

During this period building societies were perceived as middle class institutions with an upward distribution of assets, whereby the collective savings of poorer people would be borrowed by petite bourgeoisie (Price 1958, Pooley 1991). Continued attachment to terminating societies was strongest in the north (Price 1958) and among the working-class (Pooley 1991), mainly because there was a sense of ownership and control, due to their finite lifespan (Gosden 1973). Working-class fears were well grounded, as management of permanent societies required specialist skills which the middle classes were willing to supply (Boddy 1980; Gosden 1973). Excluded from management of building societies, the working class minimised their risk exposure by becoming depositors, as they could then withdraw their money more easily, clearly indicating a diminution of trust. Nevertheless permanent societies continued to prosper (see table 3.2), until the patience of the public and Government was breached in the late 1860s with a series of scandals resulting in a Royal Commission:

Building societies '*encouraged building speculation, kept defective accounts, charged exorbitant rates of interest, imposed oppressive fines and did not observe their own rules in respect of repayments to members and depositors*' (Cleary 1965:91)

**Table 3-2: Growth of Building Societies, 1853-1873**

Region	1853			1873		
	Terminating	Permanent	Total	Terminating	Permanent	Total
North	258	15	273	475	234	709
North	37	7	44	50	36	86
Midlands						
South	17	1	18	38	21	59
Midlands						
East	14	3	17	35	21	56
London and South	390	39	429	266	168	434
–East						
South	34	14	48	35	32	67
West						
Wales	9	1	10	52	21	73
Scotland	5	1	6	6	2	43
Ireland	1	2	3	2	5	7
Totals	765	83	848	959	540	1534

Source: Cleary 1965:48. Note: The Scotland figures are estimates as only incomplete information was collected.

The Royal Commission accepted that investors benefited often at the expense of borrowers, that the middle class had usurped building societies, that *'building societies do not build, they simply make advances on buildings...'* (RCFBBS 1872:para 13), and most notoriously *'it can no longer be said that the element of mutuality is essential to the type'* (RCFBBS interim report 1871 cited in Barnes 1984:10) *'...the present title of benefit building society is a relic'* (RCFBBS 1872:para 7).

Despite these comments the commissioners praised the way building societies had encouraged house building for working and lower-middle classes, the security of their investments when compared to banks, the training in 'business habits' to the working class; and concluded with *'There is no reason a priori why the law should look upon them with disfavour'* (RCFBBS 1872:para 54).

In effect the Royal Commission argued that the law should be blind regarding socio-economic change and concentrate on maintaining operational order. This was reflected in its plan to grant discretionary powers to the Registrar; making building societies bodies corporate, thereby obviating the need of trustees; limiting borrowing to two-thirds of mortgage assets; reducing the Stamp Duty exemption to £200 (this appeared

the working-class terminating societies); and enshrining model rules and interest calculation tables in law. Among the items rejected were prescribing securities, geographical limitations on societies, and sizes of advances '*...Nor do we see why comparatively poor people should be restricted from lending to the comparatively rich, if it is in their interest to do so.*' (RCFBBS 1872:paras 115-118). Most importantly they dismissed the argument that building societies should be incorporated as joint stock companies, which whilst appropriate for organisations that required capital at the start was '*not so well adapted for those which are capable of growing gradually from the smallest beginnings.*' (RCFBBS 1872:para 69). However they did foresee the demutualisation process and the argument used by its supporters:

*'No doubt there may come a stage in the development of the former body in which it passes over practically into the latter, when the capital overshadows altogether the membership.'* (RCFBBS 1872:para 70).

The 1874 Building Societies Act implemented all the recommendations except for the granting the Registrar "policing" powers over societies (Gosden 1973, Price 1958, Cleary 1965). This lack of regulatory control eventually necessitated the 1894 Act.

### 3.1.3 Crisis: 1875-1894

The twenty years following the 1874 Act were among the most turbulent and controversial in the history of building societies. Societies were created in which members rights were suppressed, annual accounts were withheld, the 1874 Act ignored, exploitation was rife, and some organisations became little more than pyramid schemes reliant upon a constant flow of new investors to stay afloat (Cleary 1965, Gosden 1973).

By 1893 the public distaste for building societies was reflected in a reduction of their assets by £9,164,726 between 1883-93 (Gosden 1973:167). For Price, Cleary and Gosden primary responsibility rests with the Bowker-Starr societies, Portsea Island and Liberator building societies. By 1893 there were over 3000 societies (see table 3.3) most of them variations of the Bowker-Starr societies. These type of societies

combined saving with gambling, while under the auspices of improving access to homeownership for the working class. Rather than borrowing money and repaying it along with any attendant interest, a member was entitled to enter an annual draw for an interest free loan. Similar in appearance to terminating societies they proved especially popular among the working-class (Gosden 1973) but the organisers often controlled the professional fees, limited the rights of members (preventing the right to remove officers) and encouraged speculation as the ballot ‘winner’ could resell their ‘loan’ to the highest bidder, often back to the society. Despite these practices they did encourage some thrift (Gosden 1973) and their failure rates were similar to the permanent societies.

**Table 3-3: Building Societies registered 1874-1894**

Type of society	Number Registered					Societies dissolved (to 1891)	
	1874-82	1883-88	1889-91	1892-94	TOTAL	Number	Average life (years)
Permanent Societies	421	113	36	13	583	218	3
Bowker-Starr	384	355	47	13	799	186	3
Other Bowker-Starr derivatives 1	0	417	378	122	917	237	2-3
Conventional terminating societies	603	281	118	50	1052	409	2
<b>TOTAL</b>	<b>1408</b>	<b>1166</b>	<b>579</b>	<b>198</b>	<b>3351</b>	<b>1050</b>	<b>2</b>

Adapted from: Gosden 1973:171 & Cleary 1965:113

The publicity given to the worst excesses of the balloting societies can be perceived as an attempt to divert attention from the incompetence and corruption of the supposedly respectable middle class management of permanent societies. Many ran liabilities over the two-thirds of assets prescribed by legislation, and security was marginalised as societies were desperate to lend money, particularly to industrialists. A downward trend began with the failure of Portsea Island in December 1891 after liabilities exceeded assets by £189,000 the extent of which had been withheld by the secretary’s ‘falsification of accounts’ and the directors ‘inadequate supervision’ (Gosden 1973). However, it was the ‘*much more spectacular*’ (Gosden 1973:171) collapse of the much

larger Liberator that necessitated the 1894 Act (Bellman 1949).

In this environment mutuality between members fractured. Many societies had no contingencies for the even distribution of losses and therefore once poor results were published members could withdraw on a first come first serve basis. Ultimately, this was tested in court (*Auld v Glasgow Working Mens Society*) whereupon the judge found for the plaintive as he had followed existing rules. Lowe (1901) called this a charter for panic and the Registrar Brabrook said:

*'It is one of the most iniquitous results of the current state of the law, that a number of members, by taking advantage of an imaginary contract with other members, have escaped without any contribution to the losses of the society, leaving an increased contribution to be borne by the whole of the other members.'* (Select Committee Q207 cited in Cleary 1965:130)

The scale of the losses ensured members participated in building society democracy. However, societies such as Bradford Third Equitable which in 1877 sent out ballot papers and copies of accounts, and Woolwich Equitable who permitted proxy votes in 1904, were rarities in undertaking experiments in broader democracy. Due to the growth of societies this action was deemed unnecessary. Whereas smaller societies retained local interest and goodwill, larger bodies were reliant on competitive edge, therefore AGMs were no longer social occasions and *'size and a dispersed membership meant that the election of officers at general meetings could be unrepresentative.'* (Cleary 1965:155). As membership participation became fragmented, mutuality lost its cultural immediacy leading to a decline in physical reciprocity and direct accountability.

Although building societies disliked the Act (see Appendix A), especially the asset disclosure section which led to a rush to foreclose numerous mortgages (Cleary 1965), it did restore public confidence (Gosden 1973) as table 3.4 demonstrates:

**Table 3-4: Building Societies performance from 1895-1903**

	1895	1903	Difference
Number of society returns	2,625	2,124	-19%
Number of members	637,635	601,204	-6%
Amount received	£29,853,449	£40,734,866	+36%
Due to shareholders	£35,165,641	£38,312,729	+9%
Due to depositors & other creditors	£17,718,606	£24,161,484	+36%
Undivided profit	£3,074,881	£3,836,273	+25%
Large mortgages (over £5,000)	£1,302,791	£2,067,260	+59%
Properties in possession	£2,752,542	£2,488,352	-10%
Mortgages in arrears	£353,463	£196,564	-44%

Source: Gosden 1973:178

## 3.2 The Twentieth Century

### 3.2.1 Consolidation and Growth: 1895-1944

With the new legislation building societies began to reappraise their businesses, and the attraction of lending small amounts became apparent, beginning the process of building society mortgagees being owner-occupiers not landlords. Occasionally disputes between these interests surfaced, with some societies opposing the Asquith government's social reforms. Defending the rights of landlords was not universally supported with Hill from the Halifax stating '*...something ought to be done to make it felt that building societies are in existence for the benefit of the working class*' (Cleary 1965:167). Hill's intervention encapsulated the paradox of building societies who had become associated with the working-class as their savers, while lending to and promoting the interests of the proprietary class.

Notwithstanding this paradox after 1918 building societies successfully exploited the government's fears of a Soviet style uprising, the avoidance of which led Bellman to claim:

*'...the nation weathered the storm and it can be demonstrated that the Building Society movement provided a goodly part of the ballast that kept the Ship of State on an even keel.'* (1928:31)

Concern about civil unrest, especially from veterans (Bellman 1928) led to the government encouraging building society mortgages through long-term finance. Consequently by 1933 local authorities had become the landlord of last resort. As homeownership was associated with aspiration it quickly became politicised (Boddy 1980), especially by the Conservatives (Pinto-Dushinsky 1970) leading Boddy to argue that:

*'Home ownership eliminates both the overtly antagonistic class relations of tenant versus profit-seeking private landlords and the equally conflict-ridden relationship of council tenants to local authorities'* (1980:24). Moreover mortgages through not-for-profit mutuals in which funds arise out of neighbours' small savings, reinforce the dominant ideology of private ownership, by privatising the provision of housing and housing finance. Collectively these *'obscure the fundamental class conflict between wage-labour and capital'* (Boddy 1980:26), resulting in class fragmentation.

Due to their size most building societies had been protected from the market but as they expanded they became drawn into competition based on interest rates (Boddy 1980). These were irrelevant when a building society served a local market but commodified competition required larger organisations to secure cost savings. Consequently the sector began to evolve into three classes: national, regional and local societies, with the Halifax and the Abbey Road (later the Abbey National) emerging by 1939 as the largest societies (Cleary 1965). In total the ten largest societies had 37% of all assets in 1922 and 53% by 1930 (Cleary 1965). Growth could be achieved quickly through merger but the Registrar ruled that profiteering was occurring. In an early example of carpetbagging directors of small societies with large resources were compensated with pay-offs from these reserves:

*'Such compensation was a substantial temptation to directors and was likely to improperly influence them, in deciding whether a merger was in the best interests of the members of their society.'*" (Cleary 1965:231)

One of the main drivers to consolidation was the national socio-economic shift as employment drifted southwards. For northern societies this posed the problem of having a surplus of funds and if they remained spatially static insufficient lending opportunities would arise, while southern societies had the opposite dilemma (Pooley 1991, Cleary 1965). That northern societies dominated the movement was, suggests Cleary, a result of cultural differences. While southern borrowers appeared prepared to access whatever credit was available, northern savers used their building societies as savings banks, making frequent investments and withdrawals. This 'traffic' placed a premium on local branches and effectively precluded the use of southern based societies, even if interest rates were more competitive. However, Pooley (1991) demonstrated that this process not only continued the practice of transferring wealth upwards noted in the nineteenth century, but undermined the accompanying explanation that this was acceptable as homeownership supported the local construction industry and released better quality rental properties. Instead there was a transfer of money and employment opportunities to southern England. Pooley ruefully commented that the response of management to the unequal demand for loans justified permanent societies, but working-class families in poor housing in the north proportionally gained less in the twentieth century than in the nineteenth, resulting in building societies fuelling *'ideologies of self-help and thrift which effectively reinforced contemporary social, economic and political structures.'* (Pooley 1991:13)

Members' interests, rather than benefit for them, are absent from much of the discourse around the inter-war years. However, Pugh's (1998) insight into the proposed merger between Leeds and Woolwich in 1944 casts doubt on the assumption of pliant and apathetic members. Though a postal ballot was held and the merger approved by Leeds members (19,908 to 1,344) the law required a two-thirds majority at the subsequent SGM on the 6 July 1944. Of the 335 present only 195 approved the proposal and the merger collapsed. Amid a rancorous meeting members expressed concern about the loss of local identity, jobs, a financial institution in a deprived city, and the board's attempt to impose the merger as a *fait accompli*. Once again this demonstrates that the accommodation between paternalistic management and members was dynamic and their interests did not necessarily coincide. An obvious solution to this conflict was to limit the engagement of members, which the Registrar was empowered to do under the



Societies (Miscellaneous Provisions) Act 1940. He could dispense with the two-thirds rule for merger (hereafter known as Transfer of Engagements - T.E.) *'if he felt that the change was not judicious to the interests of members'* (Cleary 1965:232). An outcome of this diminishing of accountability would be the erosion of trust between members and management.

### 3.2.2 Post-War Incorporation 1945-1979

The Government's concern about financial irregularities and the inadequacy of membership supervision ultimately resulted in 1960 Building Society Act, which extended the powers of the Registrar specifically to protect the interest of members, and attempting to resolve ambiguities regarding their rights (see Appendix A).

Cleary argued that building societies *'were self-perpetuating groups'* (1965:266) hence the legal requirement for limits on directors powers and the extension of the Registrar's influence, thereby implying that there was insufficient reciprocity within building societies. Nor did Cleary think the formalised rights for members would result in greater involvement, because it was easier to withdraw shares rather than establish opposition groups. Consequently I would argue that a form of legislative or regulated mutuality emerged, effecting an artificial division between members and management, with neither party fully understanding mutuality and their respective roles and responsibilities. As we will see later future discussions of mutuality became transfixed with formal rights of members rather than issues of reciprocity, trust, security and longevity of commitment.

Membership rose rapidly during the 1960s and 70s from 3.9 million to 30.636 million shareholders, while the industry consolidated from 726 to 273 societies (Bol  at 1986). A growth in prominence was accompanied by greater scrutiny. Societies faced criticism for monopolistic practices (Barnes 1984; Boddy 1980), increased managerialism (Barnes), or housing exclusion (Boddy). The rapid expansion was due to external macro-factors and sectoral shifts. Primarily monetary policy throughout the decade was fixated with curbing inflation through the management of supply of credit. As mortgages represented individuals' largest single borrowing, successive governments intervened in the core activity of building societies, culminating in the Joint Advisory

Committee (JAC). Its objectives were to continue to support the housing market, through a constant flow of mortgage funds, while simultaneously stabilising house prices and maintaining an orderly housing market. The Memorandum of Agreement argued that balancing these potentially conflicting demands would be achieved through limiting changes in mortgage interest rates, and adopting a 'flexible' approach to savings rates. To avoid 'contamination' of the policy banks were prevented from competing for mortgages via the Corset (a legal restriction on the activity of banks to aid fiscal policy) (Boddy 1980).

During this period the BSA cartel (building societies collectively agreed interest rates under the Recommended rate System, known as the cartel) attempted to negotiate between the desire by smaller societies for more competitive rates and the stability demanded by larger societies who could sustain "uncompetitive" rates for longer. Although there were occasional breaches in the mid-1970s by larger societies, it was the smaller societies who adopted a more flexible approach (Boddy 1980). Although anti-competitive, the cartel ensured a steady supply of mortgages at relatively stable prices. Between 1975-8 there were 52 changes in the Minimum Lending Rate (MLR), and 33 changes in the Bank Clearing Rate, yet the cartel recommended rate shifted on only nine occasions. Security through stability therefore benefited consumers, government and building societies during a period of economic flux. For Barnes (1984) building societies' not-for-profit status and preferential tax system made it difficult for new market entrants, while the Cartel was a useful smokescreen for oligarchic practices. However, building societies remained popular (see Table 3.5) as they brought stability and security to household finances. As Boléat argued building societies had been successful but very fortunate: "*able to operate in a rapidly growing markets without significant competition*" (1986:207) due to "*constraints placed on their competitors*" (p209).

**Table 3-5: Building Society Deposits and Personal Sector Wealth, 1957-83**

Year	Building Society shares and deposits as a proportion of		
	Net wealth %	Financial Assets %	Liquid assets %
1957	4.1	5.5	16.1
1962	4.1	5.8	19.3
1967	5.3	8.6	26.1
1972	6.4	11.2	34.7
1977	7.9	16.4	43.3
1982	8.2	16.6	44.6
1983	8.4	16.3	46.3

Source: Boléat 1986:17

National non-competitive arrangements were supplemented by local monopolies (Boddy 1980). In analysing housing industry networks in Tyneside he found that small building society directors also held positions or had connections to other housing organisations (constructors, estate agents and surveyors).

Through controlling the supply of finance, building societies were able to effectively ration its supply, often at the behest of government policy (Boléat 1986) and were criticised for their unfair distribution of these resources (Boddy 1980, Barnes 1984, Lambert 1976, Harloe et al. 1974, Weir & Kilroy 1976). Not only were building societies' lending policies conservative (Boddy 1980), especially when available funds were low, but these funds were used discriminately with those on low incomes purchasing older properties most likely to be excluded (Lambert 1976). When calculating mortgages, overtime payments, which are a significant contribution to manual workers' pay, were omitted (Harloe et al. 1974). Women had a similar experience, with assessments being made of their career prospects and when they were expected to interrupt work to have children (Boddy 1980). Additionally those on lower incomes were given mortgages for shorter periods and a smaller proportion of the purchase price. Thus they are forced to raise a larger deposit and pay higher monthly instalments (Boddy 1980). Resistance to loans on older properties and/or to poorer households created areas where societies rarely lent. Evidence for this alleged 'red-lining' was brought together by Weir & Kilroy (1976) who argued that if certain categories of people and places were excluded this would have a profound effect on housing distribution and may effectively create ghettos.

Mortgage exclusion could be resolved by increasing the supply of credit, which could only occur by attracting new investors (Boléat 1986). As most members had relatively modest savings (Boléat 1986), investments would have to be sought elsewhere. However, in attracting these investors building societies were accused of neglecting their traditional members (Barnes 1984). By offering higher returns on term and notice accounts building societies placed a preference on those with disposable cash assets, and produced a hidden upwards transfer of wealth (Barnes 1984). The tax system also favoured wealthier members with the 'composite rate' on savings meaning all members paid the same tax rate on interest received, regardless of income or taxable status. On a greater scale the Mortgage Interest Relief Assistance Scheme (MIRAS) redistributed benefits upwards. Barnes (1984) estimated that the system cost the taxpayer £15 billion per annum. In sum building societies were engaged in activities that transferred their wealth and that of the nation from the poorest to wealthiest. Combined with criticism of mortgage exclusion critics wondered whether: *'they might as well be banks or become part of banks, without all the privileges afforded to societies'* (Barnes 1984:161).

Another criticism was that the uncompetitive marketplace was distorting building societies and the market, in particular the proliferation of branches and packaged mortgages (Barnes 1984, Boddy 1980, Boléat 1986, Pugh 1998). Complaints about too many branches may seem unusual today where building societies proudly boast about maintaining extensive networks (Marshall et al 1999) but the opposite views were held by press and politicians in the 1970s. Pugh (1998) and Drake (1989) believed the cartel effectively curtailed cost competition, thus reducing the necessity of efficiency savings, consequently differentiation was sought via service; specifically branch networks. Moreover the interrelations with other housing professionals meant housing products were bundled including the preferred professionals. Larger societies also engaged in this practice and had pre-selected insurers for home and contents insurance as part of any contract (Boddy 1980). These practices were not without critics (Wilson Committee 1980) and by the 1979 election pressure for change was growing (Pugh 1998).

Along with branch expansion it was alleged that the construction of new head offices and managerial indulgence were a cause of inefficiency (Barnes 1984). Barnes states that the non-price competitive marketplace enables building society management to

have increased discretion, demonstrated in directors' salaries, auditors' fees and office accommodation. Boléat (1986) disputes this arguing that management expense ratios are distorted by inflation; whereas expenses rise in accordance with inflation, assets may not. Efficiency from a financial institution is a combination of expenses and cost of funds. Thus a society that takes most investment through branches may have higher expenses but lower cost of funds than one that relies on advertising. Notwithstanding Boléat's argument, management expenses rose rapidly during a non-price competitive marketplace period and assets, like cash, are also linked to inflation and so they cannot be the only factor affecting the ratio.

With consolidation, the choice between societies was diminishing. In 1983 the five largest societies possessed 55.7% of all assets but had not merged or brought another society in the top ten (Barnes 1984). Merger or TE was concentrated among the minute societies (assets under £10 million) to medium, small or other minute societies (see Table 3.6). Most of the decline in societies was due to dissolution of terminating societies (the last of these from Salisbury closed in 1980), but since 1950 most of these have been TEs as *'societies are in the last phase of a 30 year shift from the locally based friendly society to the national multi-billion societies'* (Barnes 1984:18)

**Table 3-6: Building society takeovers and mergers, 1970-79**

Transferer	Transferee (acquiring society)				
	Large	Medium	Small	Minute	Total
Large (top ten)	-	-	-	-	<b>0</b>
Medium (over £100 m)	1	2	-	-	<b>3</b>
Small (over £10 m)	3	7	14	-	<b>24</b>
Minute (under £10m)	25	53	54	48	<b>180</b>
<b>TOTAL</b>	<b>29</b>	<b>62</b>	<b>68</b>	<b>48</b>	<b>207</b>

Source: Barnes 1984:58

**Table 3-7: Operating expenses (pence per £100 of assets) for building societies 1970-1978**

	Large societies	Medium societies	Small societies
1970	54.9	53.1	47.9
1978	83.9	100.8	76.7

Though the largest societies grew gradually in the 1970s the significant change was the expansion of regional societies: Midshires, Town and Country, Gateway; and the new nationals: Anglia, National and Provincial, Britannia, and Northern Rock. As seen in table 3.7 smaller societies appear the most efficient, but the Registrar disagreed, believing that they had insufficient quality of management and supervision (Barnes 1984). Therefore the period witnessed the regulator taking an interventionist role regarding stability and beginning to force TE on alleged ‘inefficient and un-stable societies’ (Boléat 1986:158). Yet the arguments for merger remain unproven, with no evidence of economies of scale (Gough 1979) or only among the largest societies (Gilchrist and Rothwell 1980). But the pattern has been for mergers of small societies with relatively low operating costs, rather than between high-cost medium sized organisations, with industry insiders seeking scale to achieve national coverage which alongside the Cartel meant pressure for cost savings were limited (Barnes 1984).

Collectively questionable accounting practices, lending policies, the cartel and the questionable use of management discretion regarding mergers indicated a need for stronger accountability. This, in a mutual, should be to the members’ advantage but the relationship was determined by legislation which favoured the management:

*‘However, given its assumption of mutuality, the law provides a set of arguably inappropriate rules and procedures to cope with this conflict, together with a regulator of questionable powers.’* (Barnes 1984:138)

As the 1970s drew to a close building societies that had been so successful during the 20<sup>th</sup> Century and had dominated mortgage finance since the 1940s were facing a new set of challenges, for which they were ill-prepared. They continued to exploit extraordinary reserves of goodwill among the public (McKillop & Ferguson 1993), but the 1980s witnessed a decade of upheaval in which their market and their sector was change irrevocably. This began with the Wilson Report (1980) which heeded complaints from banks that building societies operated in a “sheltered market” in which they benefited

from the composite tax rate, were beginning to offer banking services, and considering using the capital markets to access finance. Taken together this gave building societies an unfair competitive advantage and the committee recommended the abolition of the cartel and called for more equality of competition and treatment among institutions. Policies that were enacted by the incoming Conservative government and are discussed in chapter 4.

### **3.3 Credit Unions: Origins and Development in Britain**

Unlike building societies, credit unions originated in Germany in the mid-nineteenth century. Despite a common philosophical ancestry, there is no evidence that the Germans were influenced by British building societies. Instead they seemed inspired by Owen (Moody & Fite 1971), a fact partially confirmed by Price (1958) who stated that Germany had savings and loans institutions during the nineteenth century but the first German building societies only appeared after World War I. During the mid-nineteenth century the “peoples bank” was suggested by Proudhon (Hall 1971) and credit unions were advocated by Haeck in Belgium, but it was Victor Huber’s writings which were the precursor for contemporary credit unions (Tucker 1922). He argued that poverty was degrading and that a co-operative loan fund could alleviate this situation as it benefited the individual economically and morally through “self-help”. Nor did he prescribe any artificial class barriers, believing that eligibility should not be drawn along class lines. Huber founded only two associations and it was Schulze-Delitzsch and Raiffessen who became the pioneers of credit unions (Moody & Fite 1971, Reinhardt 1998). From Germany ‘credit unions’ spread into Italy and then across the remainder of continental Europe. In contrast the early arrival of industrialisation in Britain resulted in no agricultural banks and as a consequence a relatively weak co-operative banking sector (Boléat 1986).

At the beginning of the 20<sup>th</sup> Century credit unions crossed the Atlantic with Alphonse Desjardin forming the La Caisse Populaire de Lévis in Canada in 1900, and St. Marys Cooperative Credit in New Hampshire in 1909 (Moody & Fite 1971). In the USA credit unions were perceived as a means to resolve economic and social problems especially in the nascent consumer society (Dougherty 1987; Reinhardt 1998). In

contrast to banks credit unions expanded rapidly during the depression; up 107% between 1929-33 compared to a 50% fall in the number of banks (Johnson 1993). Thereafter the movement grew steadily until the 1970s, when paralleling the trend among UK building societies a series of mergers caused by an increasingly competitive marketplace reduced the total number. Additionally de-industrialisation resulted in the liquidation of some smaller work-based credit unions.

Despite a burgeoning global spread of credit unions, the first known example in the UK did not appear until 1964 in Wimbledon (Berthoud & Hinton 1989; Donnally & Haggett 1997). At the time these organisations were unregulated by specific legislation and therefore formed as a company limited by guarantee, or an Industrial and Provident Society (IPS) under the 1965 IPS Act, or remained unregulated (Berthoud & Hinton 1989). All three options were unsatisfactory; the latter had no legal status; IPS legislation only permitted borrowing up to an individual's level of savings unless another member guaranteed against their savings; and a limited company required permanent officers responsible for any debt and had high registration fees (Berthoud & Hinton 1989). However, this legal ambiguity did not apply in Northern Ireland. Thanks to promotion by the Catholic Church, credit unions had grown rapidly both sides of the border and when the Irish Parliament passed the Credit Union Act 1966, the UK government replicated it in an Northern Ireland specific sub-section of the Industrial and Provident Act 1969 (Berthoud & Hinton 1989). Until the mid-eighties most credit union members in Northern Ireland were Catholic (29% of Catholics were members – Berthoud & Hinton 1989), development among the Protestant community had been thwarted by the Irish League of Credit Unions, which is the internationally recognised governing body for credit unions and all Ireland jurisdiction (Donnally & Haggett 1997).

Britain however remained virtually untouched by credit unions, with 27 in 1974, and 50 in 1977 and a total membership of about 7,500 (Berthoud & Hinton 1989). By 1979 there were 59 societies mainly formed in urban conurbations (the first in Scotland was formed at Drumchapel in 1970) among Catholic and Caribbean communities (Berthoud & Hinton 1989). This would indicate a similarity with the early building societies. Both formed in urban areas and among 'outsider' groups, whether because of their religion (non-conformism for building societies, Catholicism for credit unions) or social



status. It is likely that the Caribbean community faced racism, while the immigrants to eighteenth century Birmingham were excluded from available housing and credit.

The first official reference to credit unions came from the Crowther Committee (1971), which saw the potential for them in helping people obtain credit at an affordable rate. Eventually legislation was enshrined in the 1979 Credit Union Act. The Act remains the only primary legislation governing credit unions and it stipulates that:

1. The regulator is the Registrar of Friendly Societies to whom all credit unions must register
2. Credit unions are defined by their common bond, which must be an exact description of the credit union field of membership and approved by the Registrar
3. They must have at least 21 and cannot exceed 5000 members. All must be over 16 and pay an entrance fee ranging from £1-5
4. Savings are in £1 shares and should not exceed £2000 and operate on 60 days notice for withdrawal
5. Dividends cannot exceed 8%
6. The loan capital is the total savings of the members less any contingency
7. loans cannot exceed £2000 and must be charged at 12.68% APR on a reducing balance ratio
8. 20% of profits must be placed in reserves until the fund reaches 10% of the credit unions total assets
9. The maximum term for an unsecured loan is four years and ten years for a secured loan

Though enabling existing credit unions to become legal entities, the Association of British Credit Unions Limited (ABCUL) have described the Act as *'the most restrictive legislation in the world'* (Swoboda 1999), but the main purpose of the Act was to safeguard the interests of members (Berthoud & Hinton 1989). Further analysis on the effect of the legislation is discussed in 4.3.

Unlike building societies, credit union membership is restricted by a 'common bond'. By law there are three permissible common bonds: employee (the staff and their

immediate families of an organisation), associational (usually a collective interest e.g. a church congregation) or residential/community (residents of a precise geographical area). Conventional thought believes that a common bond encourages repayment (Hunter 1994) but Donnally & Haggett argued that *'there is little evidence from the real world to support this claim, and some evidence to oppose it.'* (1995:3). As in building societies, credit unions have a board of directors elected by members under the one member one vote principle. Operational practice differs across the sector but most require members to save regularly for a fixed period (invariably 13 weeks) before borrowing. When borrowing a member will apply to the Credit Committee. Loans are usually based on a fixed multiple of savings (often set a lower level for the initial loan) and during repayments the members' savings cannot be withdrawn. Comparison with banks that focus on the high cost of borrowing ignores the relatively small size of loans, hence the need for higher interest rates to offset administration costs, and that at the conclusion of the loan the members original savings remain intact (Donnally and Haggett 1995). In effect the member's savings partially underwrite the loan, making it semi-secure.

### **3.4 Conclusion**

The chapter demonstrated that there were commonalities between the early development of building societies and credit unions. Both types of mutuals were formed by excluded groups and served the wealthier members from those communities. Over time debates emerged concerning the extent of professionalism and the impact on the communities of mutuality. Specifically, the transfer to abstract trust is invariably resisted by the working class membership, who feared losing control over the management of the mutual. With their longer history building societies have experienced considerable fluctuations in members' attitudes regarding trustworthiness. This has not been a linear process, with a gradual dissipation of trust as personal reciprocity declines. Rather, it appears to parallel the reputation of the society and acceptance of paternalism. Until the late twentieth century building societies endured periodic scandals, which were followed by a withdrawal of public support. Often these phases ended with new legislation and management of societies, which ensured sufficient stability to encourage a rise in membership. However, building societies responded slowly to the decline in

paternalism and the concomitant intensification of scrutiny and challenges to their management processes. The next chapter examines how mutuals have attempted to respond to an increasingly sceptical membership, framed against a political climate aimed at removing paternalism and collective endeavour. Though mutuals have previously suffered from tardy or inappropriate state intervention, this intensified in the 1980s by a government committed to privatisation of both the individual and society.

## **4 Recent History of British Financial Mutuals 1980-2001**

The final two decades of the twentieth century witnessed the most extraordinary upheavals to financial mutuals in Britain. In 1997, eight building societies converted into banks, taking with them two-thirds of the entire sector's assets. Meanwhile, despite their relatively small size, credit unions became a major instrument of government policy to tackle financial exclusion (H.M. Treasury 1999a and 1999b). The pivotal points in these transformations were the 1986 Building Societies Act, which legalised demutualisation, and the election of the Labour government resulting in a higher profile for credit unions alongside a more permissive regulatory framework.

### **4.1 The building societies 1980-1986**

#### **4.1.1 Effects of deregulation, competition and new technology**

The election of the Conservative Government in 1979 heralded a neo-liberal approach to financial markets and extension of the right-to-buy policy for council tenants. In 1980 exchange controls were lifted, followed by the abolition of the Corset (system of domestic loan supply control on banks) (Reid 1991). Furthermore, the Bank of England altered the capital base rules for banks, injecting £8.4 billion onto banks revenue accounts between 1980-86 (Llewellyn 1988). On the demand side the Housing Act 1980 encouraged Right-to-buy, which had an immediate impact with sales rising from 30,620 in 1978 to 207,050 by 1982 (Bol at 1986).

Suffering losses on their developing world investments, the banks welcomed the opportunity of expanding in the relatively secure UK mortgage market (Llewellyn 1988) and used the relaxed capital rules to purchase market share, expanding from 8% (£593million) in 1980 to 36% (£5078million) by 1982 (Barnes 1984). Despite the increase in competition both building societies and banks were able to maintain profits as the demand for mortgages continued to exceed supply (McKillop & Ferguson 1993). Therefore, net national borrowing went from £7.3 billion in 1980 (Reid 1991) to

£16.535 billion in 1984 (Boléat 1986), while the mortgage rate rose relative to general interest rates (McKillop & Ferguson 1993).

This development made the mortgage market attractive to new entrants especially wholesale intermediaries such as Mortgage Express, National Home Loans, and the Mortgage Corporation. These bodies accessed wholesale finance from the money markets and employed new technology to 'obviate' the need for an extensive branch network and thereby undercut the building societies (McKillop & Ferguson 1993:11). Once demand had been sated, a wave of price-cutting and product innovation commenced. In searching for market share lenders exposed themselves to higher risk (McKillop & Ferguson 1993), and higher advertising spend, with building societies spending five times more in 1987 than 1980 (£8.8 million to £41.1 million) and banks spending over six times as much (£8.6 million to £50.3 million) (Speed 1990).

With an intensely competitive environment the building societies cartel came under increasing pressure. In September 1983 Abbey National withdrew from the cartel and during the next year the system went into terminal decline (Boléat 1986). Among the sternest critics of the cartel were the new cohort of building society chief executives, many of whom came from outside the sector, most notably Birch at Abbey National. These men brought a more commercial profit centred approach and challenged the prevailing culture:

*'Terminology altered from "surpluses" which Peter Birch says, "I likened to things choirboys wear," to "profits." It was to be another three years before Abbey's published yearly financial statements fully blossomed forth in a new format company-style Annual Accounts.'* (Reid 1991:35)

#### 4.1.2 Membership Agitation

Building societies responded to the growth in membership agitation by increasing authoritarian practices, designed to 'manage' participation. When the Liverpool BS initially failed to achieve the two-thirds majority for its proposed TE to Midshires in 1982, it arranged an EGM but withheld information on the time and place of the meeting (Barnes 1984). A dirtier campaign ensued during the Stockport Mersey to

Bradford and Bingley TE in 1982 with the board marginally securing the requisite two-thirds majority, only to be ordered by the Registrar to conduct a re-vote, as members were not given the full 21 days notice. At the re-vote the number of eligible members rose by 350, with leaders of the opposition to merger admitting to adding 50 of these new members. In the previous year the society had gained just nine members, and 247 of the 350 new members joined between the 23 to the 31 December 1982. When the new ballot was finally held in February the vote went 668 to 126 in favour of merger (Barnes 1984). What drove members to oppose mergers was a mixture of personal financial motivation in wanting to maintain beneficial interest rates, and a commitment to the preservation of a local financial institution. These justifications coincided with heightened activism at the turn of the 1980s, as paternalistic relationships were questioned.

The most prominent example of these changes was at the Nationwide in 1982, when Punt started asking questions about directors' expenses. During a prolonged battle Nationwide changed the rules on proxy votes, Punt took them to the High Court, lost, then requested details of staff expenses from both the society and the auditors. When rejected Punt proposed that the auditor was removed and asked for the annual return to be available to members prior to the AGM. Initially Nationwide refused citing the 1962 Building Societies Act, but later conceded, arguing they were legally correct but their case was impossible to justify publicly. In response over 500 members attended the AGM and grilled the board for five hours:

*'The Chairman... Ashworth said "If we reject the accounts as Mr Punt recommends, what do you expect us to do?" "Resign" came the cry amid ironic cheers.'* (Barnes 1984:142)

*'The sociologists have found a new victim" remarked one director gloomily "Look at those bearded chaps in their sweaters and trousers. They are all at Kingston Poly, and good luck to them. But they are not our kind of saver.'* (McRae 1982:1)

The following year the process was repeated, with motions to the AGM again being rejected and appeals being made to the courts. This time over 1000 people attended the AGM, partially encouraged by a leaked memo from the Nationwide General Manger,

asking staff to attend in a 'private capacity', removing all identifying signs and ask planted questions (Barnes 1984).

Other societies took an alternative approach and the Anglia asked its severest critic (Paul Twyman) to join the board, but this was the exception, and ironically when Nationwide and Anglia merged in 1988, Twyman became a director of the new society. Punt meanwhile formed the Building Societies Members Association (BSMA), who were committed to increasing public interest in building society accountability and exposing democratic malpractices within the sector.

### 4.1.3 External Pressure for Change

Enhancing accountability was also the justification used by those pressuring for the option to demutualise. In the short-term the issue was about creating a level playing field between building societies and the banks. In relaxing the rules for banks the government had created a market where building societies could be undercut on their traditional business, while preventing them from accessing the banks' markets (Bank of England 1990). Moreover, banks could access the wholesale money markets, while building societies remained reliant on members' personal savings (Reid 1991). Following the BSA sponsored Spalding Report in 1983, which recommended a liberalisation of legislation including the potential for demutualisation, the government responded by allowing building societies to raise money from the stock exchange, but also removing any remaining tax advantages societies enjoyed over banks (Bol  at 1986, Reid 1991).

In the USA Savings and Loans (S & L) institutions began to demutualise in 1972, with the first being Citizens Federal Savings and Loan Association, who allocated shares to existing depositors (Reid 1991). This resulted in speculative investments in other S & L and to deter this new regulation was introduced in 1975, stating that the stock must be sold at the market value, although depositors would have priority subscription rights. Additionally the law allowed for a one-year protection for the S & L after conversion and a liquidation account, equal to existing reserves should be created. This would protect existing depositors should the company fail, but as they withdraw money the fund would diminish accordingly and the balance would gradually be transferred to the

new company's capital. These procedures were to influence both subsequent UK legislation and the floatation of Abbey National (Reid 1991).

## 4.2 The Building Societies Act 1986

Building societies wanted urgent legislative change as their market share fell, drifting below fifty percent in 1987. A government Green Paper in 1984 argued for some relaxation (Bol  at 1986), and a bill followed this in December 1985 (Hammond 1998).

### 4.2.1 Discussion of the 1986 Act

The Act became law in January 1997 (see Appendix A) and was based on the principle of 'nature limits' for building societies. While accepting the arguments for change the government wanted building societies to continue *"primarily in their traditional roles – holding people's savings and lending for traditional house purchase – while loosening the legal restraints which they have operated for a century or more so they can develop in other fields"* (HM Treasury Green Paper 1984:1). Thus the Act offered limited deregulation based on building societies core competencies (Hammond 1998), and was considered restrictive (McKillop & Ferguson 1993). From the outset the act was perceived as inappropriate because it continued the distinction between banks and building societies.

*'It is, in essence, akin to a preservation order like those imposed on National Trust Parks and ancient buildings. However, in the present, increasingly competitive environment, and with the lines of demarcation among financial services fast becoming blurred, an imposed preservation order on the nature of business undertaken by societies could, in fact, have the opposite effect to what is intended: it could threaten their future survival.'* (Llewellyn and Wrigglesworth 1990:29)

The legislation had three weaknesses: it limited the activities of building societies; it restricted access to capital; and it confirmed a separate regulator for building societies (McKillop & Ferguson 1993; Hammond 1998; Llewellyn and Wrigglesworth 1990). Moreover, it placed smaller societies at a commercial disadvantage by preventing them from offering PEPs, overdrafts, and estate management (Ingham and Wong 1994).



Schedule 8 of the Act was substantially widened in 1988 (Drake 1989) to permit any service unless specifically precluded or restricted in the areas of banking, investment, insurance, trusteeship, executorships, and land services. Funding regulations were also relaxed and the largest societies could have 40% of non-retail funds (Hammond 1998), but the regulation remained restrictive to deter speculative investment by mutuals (Reid 1991).

However, the most significant passage of the 1986 Act was the capacity to convert to a company (Reid 1991). For the government conversion should be possible but not an 'easy option' (Reid 1991:29). Moreover the law, for the first time, enabled members to access their theoretical property rights contained within a building society. Previously the residual value was locked and effectively transferred across generations, the 1986 Act transformed ownership into a 'hybridised model', as the traditional form was combined, with a feature of investor-owned company, in which the residual can be realised for short-term gain (Cook et al. 2001:26). The impact of this change was not immediately apparent but would become the main challenge for building societies during the late 1990s.

#### 4.2.2 The Demutualisation of Abbey National

Abbey National argued that mutual status was 'outdated' and that demutualisation was necessary because building societies were placed at a competitive disadvantage, therefore losing customers to other providers. Furthermore, conversion would recognise members' ownership, which would be 'enhanced', 'both in terms of value and control'. By law the Transfer Document had to include the disadvantages of conversion, which it considered were the risk of takeover, the loss of trustee status for deposit account holders, and higher interest rates, all of which were considered briefly and arbitrarily dismissed (Reid 1991:78). To forestall any legal challenges Abbey National arranged a 'friendly' court case with the Building Societies Commission, to test the status of free shares for qualifying members. This was not envisaged or prescribed in the original Act, and the Vice-Chancellor admitted that he was '*doing the best I can with this very obscure statutory provision*' and eventually accepted the case for free shares (cited in Reid 1991:71).

The main threat to the conversion came from a small pressure group Abbey Members Against Floatation (AMAF), who ultimately recruited 1,405 members. During the eighteen months prior to conversion they fought and sometimes out manoeuvred the board in both the press and within the society. Throughout this period the board were unyielding, refusing to grant AMAF a platform, include their literature in branches or mailings, and declining a motion for a Special General Meeting, because it interfered with the board's right to manage the business (Reid 1991). Their final tactic was to nominate candidates for the board, through which Abbey National sent out the accompanying manifesto statements. It is noteworthy that the vote for directors, where members had access to AMAF literature was 3:1 in favour of the board's recommended candidates, while the conversion vote where no opposition literature was circulated the margin was nine to one. Facing intransigence from the board, lacking access to members names and addresses, and sufficient finance for a direct mailing AMAF was never likely to be successful, but their campaign raised serious points which the Building Societies Commission felt the Abbey National had failed to answer, particularly regarding the biased appraisal of the consequences of demutualisation which was sent to members. The board received criticism from other members during their roadshows to promote to conversion to members, with one individual stating that.

*"A bribe is bad enough; it is even worse to be bribed with your own money."* (Thomas Lines at Edinburgh roadshow cited in Reid 1991:109).

Despite this public interrogation the conversion proceeded on schedule. At the outset qualifying members were given £100 of free shares each and offered a share of an additional 750,000 million cash shares valued at £1.30 million. In rejecting a tiered distribution based on value of investment, the board believed this continued the mutual culture of one member one vote (Reid 1991). With the offer of free shares the board felt confident of victory, but still remained nervous about reaching the turnout thresholds. In the event these were passed easily as 2.87 million savers voted (64.6%) with 89.5% in favour, while 676,000 (64.1%) of borrowers voted, with 90.7% in favour. The scale of vote led AMAF to reflect that *'a good bribe always win a good argument.'* (Reid 1991:103). The subsequent share issue was 2.7 times over subscribed and Abbey National Building Society converted into Abbey National plc on July 12 1989.

In reviewing this first conversion of a British building society, Boléat believed the free shares had been the key decision and Reid believed the conversion demonstrated that members had a ‘fragile’ commitment to mutuality. Presciently she contemplated whether the offer of free shares might encourage members at other building societies to become ‘*AMAF in reverse*’ and campaign for conversion for share benefits (Reid 1991:188)

### 4.3 Into the 1990s – housing recession and more conversions

#### 4.3.1 Housing Recession

The housing recession of the 1990s created extensive negative equity, especially in Southern England (Coles 1992). The impact for building societies was threefold: a worsening balance sheet caused by mortgage arrears and repossessions (see table 4.1 overleaf); and as a consequence a reduction in the number of Southern based building societies. All were transferred to larger societies, sometimes under the guidance of the BSC. The third detrimental impact was on building societies’ reputation; for example the Solicitors Property Group described building societies behaviour over repossession sales as ‘*bureaucratic, bungling, incompetence and inefficient*’ (Hunter 1992:33).

Table 4-1: House repossessions and arrears 1989-95 & 2001

	1989	1990	1991	1992	1993	1994	1995	2001
House Repossessions	15,810	43,900	75,540	68,540	58,540	49,210	49,410	18,260
Houses repossessed as a percentage of total mortgages	0.17	0.47	0.77	0.69	0.58	0.47	0.47	0.16
Loans in excess of 12 months in arrears	13,800	36,100	91,700	147,040	151,810	117,100	85,200	19,470
Loans in excess of 12 months in arrears as a percentage of total mortgages	0.15	0.38	0.93	1.48	1.50	1.12	0.81	0.17

Adapted from Council for Mortgage Lending data 2002

The only consolation for the building societies was that banks had greater losses, with an estimated 2.78 per cent bad debt on advances in 1991 for the 'big four', compared to 0.71 percent for building societies (UBS Philips and Drew 1992). McKillop and Ferguson (1993) believed that building societies' performance was only stronger than the banks, because they were prevented from participating in riskier activities. Certainly during the recession, discussions regarding conversions and the limits of the law diminished.

Generally building societies performed well in the 1980s (McKillop & Ferguson 1993) but this disguises five significant developments. First, the failure of many diversification programmes with many societies moving into and then withdrawing from activities such as estate agency. Second, building societies' costs were rising, while banks were aggressively reducing theirs, through redundancies and branch closure programmes (McKillop and Ferguson 1993). Third, as building societies continued to merge there was conflicting evidence regarding economies of scale. Fourthly, only one new society, the Ecology in 1981, was established during the decade. Finally, the sector was undergoing a culture change:

*'Undoubtedly, there has been a shift from social to commercial objectives and this has helped create a more performance orientated culture within the sector...'* (McKillop and Ferguson 1993:10)

#### 4.3.2 The Cheltenham and Gloucester Demutualisation

At the forefront of the cultural changes was the chief executive of the *Cheltenham and Gloucester (C&G)*; Longhurst. Since his appointment in 1982 he improved the efficiency and increased the organisation's size (Scott 1994a). Being too small to qualify for the FT100 following a demutualisation Longhurst agreed a friendly takeover by Lloyds bank in April 1994 (Hughes and Whitebloom 1994). What drew the greatest attention was the windfall to existing members of C&G, as Lloyds agreed to pay £1.8 billion for the business, with each member receiving £500 and an additional 10% of their balance in their smallest account, for savers up to a maximum of £10,000. Consequently the average payout would be £2200 (Hughes & Hunter 1995). This cash bonus was 15 times that received by Abbey National members, sparking speculative

activity in the remaining societies (Hughes 1994a, Whitebloom et al. 1994).

However, a regulatory and legal challenge to C&G's planned distribution ensued, which resulted in the Vice-Chancellor declaring that cash windfalls to members of less than two years continuous membership and to borrowers were illegal, as the law was '*to prevent speculative investment in building societies*' (cited in Hughes and Hunter 1994:33). Some members disgruntled with the amended distribution joined C&G Alternatives, a small pressure group established to oppose conversion (Hughes 1994b, Scott 1994b). An unseemly dispute that pitted members against each other was threatening to engulf the conversion; leading Scott to ruminate '*is this what mutuality is supposed to be about?*' (1994c: 20).

During the autumn C&G Alternatives grew to over 3000 members and in early January 1995 collected sufficient nominators to request a Special General Meeting (SGM) (Hughes 1995a). After considerable delay C&G held the SGM at 4pm on Saturday 25 March, a day before all postal votes for the conversion were due (Zagor 1995).

The SGM was a boisterous affair with a 1000 members jeering and slow handclapping the board, as Longhurst refused to answer any questions during a two-hour ordeal. At one stage the chairman had to abandon a prepared 20-minute speech such was the tumult. Despite winning the vote of those present the protestors were defeated by the proxy votes held by the board (Gibbs 1995). A week later the takeover was confirmed as members voted overwhelmingly in favour (see Appendix B).

### 4.3.3 Halifax and Leeds Permanent Merger and Demutualisation

In November 1994 the Halifax and Leeds Permanent announced their decision to merge and seek demutualisation. Considered a staunch defender of mutuality three factors influenced Halifax's decision: first, the C&G decision meant members now were aware of the value of their shareholding. In a private poll in 1992 only 3% of members knew their rights, following C&G this rose to 75% (Pugh 1998). Second, with the flat housing market Halifax was struggling to grow organically and it was fearful of being undercut by the larger banks. Third, they had lobbied unsuccessfully for a change in building society legislation to allow the largest organisations to become mutual banks.

These would offer the same services as other banks, be regulated by the Bank of England, but retain a mutual ownership structure (Pugh 1998).

In parallel with these events the chief executive, Blackburn, was exploring a merger with the Leeds Permanent. With considerable branch overlap and the combination of Halifax's size with Leeds innovative culture, a merger was an attractive proposition. However, the Leeds management suspected that its members would expect a windfall similar to that enjoyed by those at C&G. Instead they sought merger with agreement to convert, believing the issuance of free shares would help overcome resistance to any branch closures.

The general public responded to the announcement by opening building society accounts in hope of a windfall (Hunter 1995). Despite some opposition the merger was approved with 97.7% of Halifax savers and 97.6% of borrowers, and 95% of Leeds investors and 94% of borrowers voting in favour. Only the small turnout among the Leeds voters, 28%, marred the result (Pugh 1998).

On the 24 February 1997 Halifax members overwhelmingly approved the demutualisation, (Wainwright 1997, Pugh 1998). It made its stock market debut on the 2 June 1997 being *'the biggest giveaway in British history – more than £18 billion worth of shares were issued to 7.6 million people'* (Miles 1997b: 3). The launch smashed all existing records being the largest ever launch in stock market history, creating more new shareholders in one day than any previous or subsequent flotation (Ryle 1997, Miles 1997b, Pugh 1998).

#### 4.3.4 Demutualisation Mania 1995-9

Halifax's departure from mutuality was soon followed by National and Provincial (N&P), the Woolwich, Alliance and Leicester (A&L), Bristol and West (B&W), and Northern Rock. First to depart was Bradford based N&P when they were brought by Abbey National in a hostile takeover (May 1995). Though not the highest price, the clinching factor was Abbey National's ability to give members an immediate cash bonus, rather than wait two years for conversion following a merger (May 1995). With an average windfall of £750 across 1.7 million members the takeover vote was a

formality.

Though the Nationwide considered and ultimately rejected demutualisation (Wylie 1995), the Woolwich and the A&L announced their conversions in January 1996 (Brummer 1996, Hughes 1996). Woolwich upset speculative investors when they declared a retrospective cut-off date for the two-year rule, thereby excluding 35,000 savers (Scott 1996a, Miles 1996a). Famously when asked to justify the action Robinson said: *'I have no conscience at all about not enfranchising carpetbaggers'* (Ciccutti 1996:1), thereby providing a label for speculative building society investors. Notwithstanding this members approved the demutualisation and received an average windfall of £2418 in July 1997 (Miles 1997a).

In contrast to Woolwich A&L pleased the 'carpetbaggers' with its decision for a flat distribution of 250 shares for all members, regardless of longevity of membership or investment (Scott 1996c). Again, the demutualisation vote, with 95% in favour, proved a formality (Miles 1996).

With the building society movement in freefall attention switched to smaller societies, specifically Bristol and West (B&W), Northern Rock and Birmingham Midshires. The Northern Rock wanted to retain autonomy and the five-year protection from predators granted by the 1986 Act to all converting societies, was an attractive defence mechanism. However, when the government declared that new legislation would be introduced to remove this protection if the converter attempts to purchase another company, the Northern Rock board "panicked" (Miles 1997c) and demutualisation followed on 1 October 1997 (Miles 1997d).

B&W secured a degree of autonomy when they announced an overseas purchaser in April 1996, the Bank of Ireland, who paid £600 million for the business (Scott 1996b). To ensure a successful vote, which would require the support of the estimated 60,000 carpetbaggers (King 1996), the Bank of Ireland offered an average windfall of £1,100 and demutualised in July 1997 (Baird 1997).

Meanwhile Birmingham Midshires continued to resist suitors until it was leaked they were in talks with the Royal Bank of Scotland (RBS) in July 1997 (Hunter 1997b).

With an estimated 300,000 carpetbaggers (Scott 1997b) Birmingham Midshires were aware that they needed to secure the highest possible price. RBS offer of £630 million appeared reasonable until Halifax launched a hostile bid for £780 million (Jones & Stuart 1998). After protracted argument, RBS were paid compensation and Halifax agreed to pay £1250 per member which was approved in December 1998 (Jones, R 1998)

From the takeover of C&G in 1994 through to Birmingham Midshires in 1998 over £30 billion was distributed in cash or shares (Ryle 1997), whilst in 1997 alone 16 million new shareholders were created (Miles 1997f). Yet the distribution was uneven. Though the average amount received per person (£2000) was the same in terms of class, only 30% of the distribution went to the working class, while the middle class accumulated 48% (Travis 1997). Moreover men, who were often the only beneficiary in joint accounts if they were the first name on accounts, received a greater proportion of the national windfall than women (Miles 1997c).

In justifying their conversions the building societies employed the same argument; constraint of trade. Whether demutualisation was to gain access to the wholesale capital markets or expanding into new ventures, all the societies felt inhibited by the current legislation. Some of these complaints were addressed in the Building Societies Act 1997 which came too late to prevent the demutualisations.

Other explanations for the loss of two-thirds of the building society sector tended to be neo-Darwinist economics or egoistic conspiratorial. Neo-Darwinists perceive building societies as inefficient Victorian organisations that have no place in the modern, thrusting, aggressive capitalist world of Thatcherite Britain (Brummer 1995, Hunter and Saigol 1997). This view could be characterised as functionalist, as it assumes an evolutionary approach to the development of mutuals.

In contrast, egoistic 'conspiratorialists' argue that the main beneficiaries of demutualisation were the directors, primarily financially, but also because managing a bank was more exciting than a staid building society. The conspiracy link was the tactic to 'bribe' members, who accepted the loss of mutuality and enhanced status for directors, in return for a disproportionate and instant return on their investment. In



popular vernacular greed was the overriding motivation on both sides (Miles 1997e, Foot 1997 Guardian leader 1995)

Though owing much to psychology, I would identify this theory with Neo-Marxist thought, as exemplified by Hird (1996) as it combines exploitation, seizing the means of production, and the financing of the petite bourgeoisie.

#### 4.3.5 The Rise of the Carpetbaggers 1997-1998

As the nation became aware of the unlocked financial rewards within building societies a new phenomenon appeared: the carpetbagger. The term carpetbagger had its origins in the aftermath of the American Civil War and was a derogative term to describe Unionists who went south with their belongings in a carpetbag (to grab political and economic spoils at the expense of the defeated population). As noted earlier the term was unused in Britain until Robinson, from the Woolwich, described speculative investors as carpetbaggers.

Over time a carpetbagger became associated with a particularly virulent group of investors who demanded demutualisations and pursued open conflict with those mutuals that remained. Foremost among these was Michael Hardern and his pressure group Members for Conversion (MfC). What made MfC unique was its lack of formal structure or a spatial location. Instead it relied on the internet and e-mail as communication and network tools, and therefore existed only in cyber-space. The benefit of this structure was that a small geographically diverse group of members could effectively campaign without the necessity of physical proximity, in marked contrast to the origins of building societies. With building society legislation based on physicality, anticipating that getting sufficient signatures for a motion would be difficult, a technology minimising this task posed a threat to the sector's existence.

Hardern's first target was the Nationwide and he stood as a director along with four others on a pro-conversion ticket in 1997. Despite fears about the outcome, Nationwide won comfortably by 950,000 to 250,000 votes, surprising Brown-Humes & Blitz, who linked the outcome to the election of a Labour government, believing: *'The collective values still espoused by Labour, albeit in a watered-down form, are reflected in the*

*ideal of mutuality, in which customers rather than shareholders benefit from the organisation's surplus funds.'* (1997:1)

City analysts had expected a Hardern victory (Merrell & Ashworth 1997), because of the rush to open accounts with Nationwide during the campaign, with 25,000 new accounts per day, equalling the average weekly rate for the society (Brown-Humes 1997a). Nationwide was not the only society affected. During June 1997 building societies experienced their largest single monthly cash inflow in their history (£1.84 billion), despite deliberately offering uncompetitive interest rates and having high minimum opening balances (Miles 1997). This was beginning to have a detrimental impact on societies' ability to manage and branches were described by Adrian Coles of the BSA as suffering from a 'feeding frenzy' as press and carpetbagger speculation rose (Hunter 1997a, Miles & Saigol 1997).

Following the election the Nationwide moved to counteract the carpetbaggers by introducing a lifetime 'signaway' for all new members, this enabled the society to lower their minimum opening balance to £1 and begin accepting new applicants (Scott 1997b). The signaway was an additional clause on the application form, to which new members transferred their windfall to the Nationwide Foundation charity in the event of a conversion. Theoretically the financial value contained within membership of a building society would remain permanently locked-up, mitigating speculative activity. Though opposed by carpetbaggers, 51 other societies had introduced a signaway clause by October 2001 (Lawrenson 2001).

In response to this action carpetbaggers scrambled to join societies before signaways were imposed, using the internet to inform and communicate the policies of various societies. Meanwhile Hardern's notoriety had resulted in his expulsion from 35 societies, and attempts to become a candidate for directorship were rejected at the Bradford and Bingley, Britannia, and Chelsea (FT Observer 1997).

Irrepressible as ever Hardern returned to the Nationwide in April 1998, this time combining a conversion motion with a board candidature, and standing with another carpetbagger, Andy Muir (Merrell 1998). To ensure support from members Nationwide had spent 1997/8 cutting service charges, improving interest rates and declaring a price

war on banks (Merrell & Emmett 1998). As the Nationwide demonstrated the benefits of mutuality, Hardern accused their staff of 'assisting' members with their voting (Verity 1998a), while just before the close of voting the society extended the polls by an extra day (Caine 1998). In the event the results were exceedingly close. Although losing the directorship election 60/40, the carpetbaggers received 49.2% of the demutualisation motion with Nationwide's mutual status surviving by just 33,710 (1,135,597 to 1,101,887) (Verity 1998c). The result sparked renewed speculation on future about other building societies (BBC News 1999c), and demonstrated how difficult it was to argue against a free windfall.

#### 4.3.6 Revenge of the Carpetbaggers 1999

In December 1998 carpetbaggers placed conversion motions and candidatures for directors to seven societies: Britannia, Portman, Yorkshire, Coventry, Chelsea, Skipton, and Leeds and Holbeck. Whilst another member, Stephen Major, proposed a similar motion at the Bradford and Bingley (BBC News 1999a). Citing the 1974 'Woolwich versus Hickmott' case whereby societies could refuse a motion if it interfered with the management of the society, six societies rejected Hardern's motion and candidature. The Britannia allowed Hardern to stand for the board, whilst disallowing the conversion motion (BBC News 1999d). Hardern's campaigning remained as quixotic as in previous years, culminating in an abrupt withdrawal a few days before the close of voting leaving Britannia with a £3 million bill, for restaging the elections (Jones, R 1999b, BBC News 1999e,f). Later in June Britannia expelled Hardern and his 300 supporters citing wasted expenditure on the election (BBC News 1999f, Nelson 1999).

As the remnants of Hardern's credibility were finally extinguished, the 'introverted' Stephen Major (Jones, R. 1999a) quietly pursued the conversion of Bradford and Bingley (BBC News 1999b). Though the campaign seemingly paralleled that at Nationwide, there was a suspicion that Christopher Rodrigues, the Chief Executive, wanted a demutualisation (Brummer 1999), as the Bradford and Bingley had neither raised minimum opening balances nor introduced signaways. Members heeded Bradford and Bingley's seeming ambivalence, with 62% supporting conversion on a two-third turnout (BBC News 1999g). After accepting the result the Board supported the formal demutualisation, securing over 90% of the vote (Jones, R. 2000a). Further

suspicion of the board's original intentions came with the announcement that all members would receive 250 free shares each, rather than a tiered distribution based on loyalty and the amount invested (Jones, R. 2000b).

#### 4.3.7 Building Societies fight back

The scale of the initial conversion vote at the Bradford and Bingley led to days of lurid headlines on the future of building societies, especially as this was the first vote proposed by members to go against the views of the board (Levene & Inman 1999, BBC News 1999h). The question became not if, but when, and who, would be the next society to demutualise (Insley 1999). While borrowers were the main beneficiaries of mutuality they were outnumbered five to one by savers, making the task of protecting a society appear forlorn. However, there were indications that things were improving for beleaguered societies. With a change of secondary legislation in 1997 a conversion resolution required a 50% turnout, up from 20% (Brown-Humes 1997). Though irrelevant at the Bradford and Bingley where the turnout surpassed these figures, a detailed analysis of the results showed that over half of voting borrowers had rejected the conversion proposal on a 60/40 split (BSA 2000). Thus the conversion motion would have been lost if it had been a formal proposal and not a members resolution.

Another influence was the political focus on the issue of financial exclusion. Building societies were able to argue that passbook accounts remain popular among traditional excluded groups, while individual societies were involved in developing innovative savings and loans schemes to address financial exclusion (BSA 2000). Similarly, societies closed fewer branches than demutualised societies (Marshall et al. 1999). With regards to competition building societies argued that they were more efficient and they had taken market share from mortgage banks, as shown in Tables 4-2 and 4-3:

**Table 4-2: Margin Comparison for Converted Institutions and Building Societies 1999**

Mortgage Bank	Interest Margin %	Building Society	Interest Margin %
Halifax	2.25	Nationwide (yr to April 1999)	1.72
Abbey National	2.45	Britannia	1.07
Woolwich	2.10	Yorkshire	1.03
Alliance& Leicester	1.61	Portman	1.45
Northern Rock	1.42	Coventry	1.14
		Skipton	1.31
		Chelsea	1.50

Source: BSA (2000:5)

This table shows the gap between the saving and borrowing interest rates. The narrower gap the more competitive and efficient the organisation should be.

**Table 4-3: Share of Personal Deposit and Residential Mortgage Market 1999**

	Mortgages						Savings					
	Balances outstanding end 1997		Net Advances 1998		Net advances 1999		Balances outstanding end 1997		Increase in deposit balances 1998		Increase in deposit balances 1999	
	£bn	Share %	£bn	Share %	£bn	Share %	£bn	Share %	£bn	Share %	£bn	Share%
Mortgage banks	193	45	63	25	9.1	24	168	32	1.7	6	-1.7	-4
Building societies	98	23	7.8	31	10.6	28	95	18	9.6	32	11.1	28
Market	432	100	25.2	100	37.9	100	525	100	30.2	100	40.3	100
Total												

Adapted from BSA 2000

Despite their competitive advantages building societies continued to erect defences against carpetbaggers, with the Yorkshire introducing a higher threshold for member conversion resolutions. Under previous arrangements these only needed a simple majority to be accepted, it would then be followed by a formal resolution which has the same rules as a directors' proposal. These required a 50% turnout of investors with 75% voting in favour and 50% of borrowers also in support. The Yorkshire combined the two votes and incorporated the statutory limits (Brown-Humes 1999a). This was soon replicated by other societies, causing carpetbaggers to complain that it would '*virtually render impracticable any resolution by a member to change the status of a society*' (Brown-Humes 1999b: 7).

As building societies explored these legal mechanisms, the carpetbaggers were engaged in an internecine dispute. Dissatisfaction with Hardern's behaviour resulted in his expulsion and replacement by Richard Yendall as the figurehead. Moreover, a pro-mutual internet group led by Bob Goodall called Saving Our Building Societies (SOBS), was engaged in guerrilla tactics by sending numerous disruptive messages to carpetbagger.com message boards. Inevitably the carpetbaggers reciprocated (see

Chapter 9).

Meanwhile the demutualisation process led to a Treasury Select Committee investigation (Treasury Committee 1999), which concluded that some of the advantages claimed by building societies '*could be replicated in non-mutual organisations, and that some building societies have not always shown these characteristics*' (Treasury Committee 1999:1). They went on to endorse loyalty bonus schemes, as offered by the Britannia, and signaways, but criticised large minimum opening balances. They expressed concern about introducing secondary legislation to increase the number of members required to propose motions or candidates, as this would '*diminish*' accountability. Finally they accepted that legal changes were required urgently before building societies were demutualised and requested three legislative amendments, the most important of which was equalizing the majority threshold figures for borrowers and savers (Treasury Committee 1999:1-2). Responding, the government dismissed the report's recommendations, arguing building societies had to '*save*' themselves and not rely on government intervention (Graham 1999).

#### 4.3.8 The Battle for Leek United

As the largest remaining societies demutualised or erected barriers to carpetbaggers, little attention was given to the small community societies. It was thought that they would either survive virtually unscathed because of their local knowledge and links to their community; or economic realities would result in their takeover by other larger societies. These theoretical discussions were interrupted in September 1999 when Murray Financial Corporation (MFC), an Edinburgh based publicly listed acquisition vehicle, specifically established to takeover building societies launched a hostile £30.5 million bid for Leek United BS (BBC News 1999j). MFC had no assets and among its directors were Conservative MP Redwood and Ingham, Thatcher's former press spokesperson. In contrast Leek United, led by Chief Executive McFadden, had assets of £450 million, and 60,000 members. The attempted takeover received national prominence because of the possible implication for the remaining building societies (Levene 1999).

MfC's proposal was to transform Leek United into an internet bank and build capacity

by purchasing other small societies (Houldcraft 1999). It believed this would ensure Leek's survival and protect employment (Jones, Phil 1999). Local support for the bid allegedly came from former chairman, Hill, who owned the weekly newspaper, Leek Post and Times (FT.com 1999). The other local paper, The Sentinel, opposed the offer and the campaign was partially fought out in the letters and editorial pages of both papers. The issue permeated the entire community, local MPs condemned the takeover (Jones, Phil 1999), and even church leaders raised the matter in sermons (Scotsman.com 1999). The climax for local activism was a march in support of Leek United on the 30 October, organised by the Mutual Interest Campaign (a pressure group combining building societies management and trade unions). Preceding this The Sentinel's editorial lamented the fate of building societies and lambasted MFC:

*'The reality is that if mutuality is to survive, individual building societies cannot afford to sit back and be picked off one by one like sparrows on a washing line'...MFC arguments was "an area where rhetoric has overwhelmed reason. Thus we have old Tory diehards like Sir Bernard Ingham and John Redwood...doing the rounds with the battlecry that they are only interested in serving the cause of democracy. Sir Bernard's powers...are obviously on the wane. Even a blind man could see that Murray's interest in Leek United is more related to the rustle of pound notes...offering...the kiss of death, eased by the prospect of a few pounds blood money.'* (Sentinel editorial 1999:1).

650 people attended the march and speakers emphasised that the vote was a *'defining moment for the future of the whole building society movement.'* Sybil Ralphs, the Moorlands council chairman [sic], stressed the communal aspect of the campaign: *'People come before profits and we need to send the message loud and clear that we don't take kindly to outsiders coming in and taking away our jobs and quality of life.'* (Sellers 1999:1-2). The result on December 3 clearly endorsed Leek United's strategy of emphasising the local embeddedness of the society (Houghton 1999b), with 22,712 (73.3%) voting against MFC, while 8,264 (26.7%) voted in favour (BBC News 1999i). Unlike the knife-edge votes of Nationwide, this was the first overwhelming endorsement of mutuality, signalling that communities can successfully resist unfettered capitalism. The alleged inevitability of demutualisation was halted, not on economic grounds, but on mutual values.

### 4.3.9 The Carpetbaggers Return – Autumn 1999-2002

Although the government rejected the proposed legislation recommended by the Treasury Select Committee, they did tighten secondary legislation in November 1999. Increasing ten-fold the number of members required to demand a special general meeting, propose a motion at an annual general meeting or nominate a director for election to 500 at larger societies and 100 at smaller ones.

The changes, which came into effect on 1 December 1999, were in response to the carpetbaggers' effectiveness at gaining support via the internet (Asher 1999, Ashworth 1999). Leading carpetbaggers were stunned by the change, Major said: *'If it was hard getting 50, it would be nearly impossible to get 500.'* (English 1999:1).

However, the carpetbaggers were not to be deterred. Using the website Yendall posted a message on the 22 November asking members to sign a resolution asking seven societies to *'consider taking steps to change the independent mutual status of the society'*. Once completed the forms, along with their account details, were to be forwarded to Yendall's address for checking and collation. The response was phenomenal, with Yendall submitting over 500 forms to the Portman, 300 to the Chelsea, and 200 to the Skipton. These three were selected because they had not introduced a signaway clause (Emmett 1999). The combination of the internet and a dramatic dash to pre-empt legislative changes drew considerable press coverage (Verity 1999, BBC News 1999k, Jones, R 1999, Sherwen 1999a, Fagan 1999, and Hunter 1999). Hunter argued that the legislation had *'backfired'*, (1999:1) while Fagan described the internet as the *'midwife to a faceless revolution to convert building societies into banks'* (1999b: 1). This anonymity fascinated Sherwen (1999b) who noted that Yendall had only ever met one other carpetbagger, as there were no conventions or conferences. Finally, Jones believed that the internet simplified the process of collecting signatures for a motion, as previously it involved *'standing outside branches in the cold, badgering those going in and out'*. The ease in which carpetbagger.com mobilised support *'within a few days suggests the "cyber-bagger" could pose the biggest threat yet to the 224-year old building society movement.'* (Jones,



R. 1999c: 6).

On 15 January 2000 the Portman dismissed the motion as invalid, although no explanation was offered. Carpetbagger fury was heightened when the Portman proceeded to expel Yendall and the other nominators (Parkinson 2000), believing that they *'did not think the members [the carpetbaggers] understood the benefits of mutuality'* (Gulley, Chief Executive of the Portman, cited in BBC News 2000:2). Alternatively the Chelsea and Skipton accepted the legitimacy of the motion and confirmed that it would be put to the members, but that as it requested the board to 'consider' a change in status the directors would support the resolution. After all they 'considered' the future of their status all the time (Collinson 2000, Sherwen 2000). Yendall considered it a *'cynical ploy'* (Emmett 2000a), especially as the law forbids members placing binding motions to the board. Accordingly in April the votes at both societies took place, with 88 % supporting the motion at the Chelsea and 90% at the Skipton (Collinson 2000). Soon after the societies announced that they had now 'considered' the matter and decided the best option was to remain a building society.

Though perturbed by the approach of the Chelsea and the Skipton, carpetbaggers were incensed by the behaviour of the Portman. Recriminations followed at the AGM with ordinary members critical of the board's undemocratic behaviour (Emmett 2000b: 26). The board's apparent disregard for democracy led to another member, Tanner, creating a new pressure group, Mutual Members, which wanted to improve democratic accountability of building society boards (Levene 2000). To date Tanner has had motions to reinstate members rejected and lost a board election, receiving only 22% of the vote (Inman 2001, Portman 2002).

At the Chelsea, Naughton-Doe tabled a motion to convert the society, which was rejected by the board due to 'unacceptable' wording (Macalister 2000, Jones, R. 2000c, Money Miscellany 2001, Jones, R. 2001a). Meanwhile Yendall proposed a series of pro-democratic motions at the Britannia in 2001, which were rejected and his candidature for directorship failed after receiving only 16% of the vote (Nugent and Gilmore 2001:12, Britannia 2002, BBC News 2002).

For carpetbaggers the 'holy grail' remains the conversion of the Nationwide (Jones and

Levene 2001). The 2001 election was significant as under the three-year rule a conversion motion could be re-introduced. However, the carpetbaggers 'candidate' for directorship, Muir, saw both his share and total vote drop sharply since he stood in 1998 (Nugget 2001, Jones, R 2001b, Scott 2001). Reacting to this result Carpetbagger.com declared that it would no longer submit conversion resolutions and '*in this respect, 'carpetbagging' is dead*' (cited in Jones, R. 2001b: 6). Despite this Muir tried again in 2002, suffering the indignity of receiving fewer votes than the pro-mutual, Tanner. (Jones, R. 2002)

In the midst of this uncertainty over its future the Nationwide has attempted to establish itself as the consumer's champion. This has been best represented by two policies with divergent levels of success. First, when Barclays attempted to impose a £1 levy on non-Barclays customers using their ATMs (Automated Teller Machine) for withdrawals, Nationwide defended their free use. Nationwide denounced the bank as '*profiteering*' and '*ripping off customers*' and threatened to take Barclays to court. The press backed Nationwide, who were quick to argue that mutuals favour the customer because they do not pay shareholders (Inman 2001: 6, Treanor 2001a: 16). Second, in an increasingly competitive mortgage market lenders have offered discounted time limited fixed-rate products for people re-mortgaging. However, once the period was complete the rates soon become uncompetitive, as financial institutions relied on customer inertia to prevent loss of business (Treanor 2001b). This was especially problematic for building societies as it assumed existing borrowers should receive a secondary service, and it meant existing members, both savers and borrowers, were in effect subsidising the special deals to attract new members. Nationwide's solution was to abandon the special deals and offer a single variable rate for all customers (Jones, R. 2001c). Though certainly mutual behaviour the public have been less enthused and the Nationwide's share of the new mortgage market collapsed, as other lenders exploited their uncompetitiveness (Treanor and Jones 2001).

On reviewing the events of recent years a pattern of guerrilla warfare fought by pro-mutualists keen on promoting greater democracy and carpetbaggers seems to be emerging. The targets are all top ten societies and usually include the Chelsea, Nationwide and Portman. Portman's problems stem from the ejection of members following the 1999 motion; Nationwide is a focus because of its size and therefore

expected to be the last society that will be able to demutualise directly; and it is thought that the Chelsea has a disproportionate number of carpetbaggers as members. In hindsight the Leek United was a seminal moment for small societies, as they have subsequently remained free from hostile takeover bids. However, as we have seen nothing should be assumed and the carpetbaggers only have to be lucky once, the building societies forever.

## 4.4 Credit Unions from 1979-2000

### 4.4.1 Growth of credit unions 1979-2000

Once the 1979 Act received its Royal Assent most existing credit unions and informal West Indian savings and loans groups applied for registration. By the close of 1980, 57 organisations were registered and a further 24 joined them by 1982. Nevertheless, there were concerns about the lack of commonality in the wide common bonds, leading to increased risk of defaults. Meanwhile, the Registrar found that the conversion from initial optimism to the reality of managing a financial institution, had not been fully appreciated or discharged adequately. Subsequently, stringent rules were imposed on the establishment and management of credit unions with emphasis on financial probity and prudence. Following the hiatus between 1983-5, 12 were registered in 1986, 14 in 1987, and a net 36 in 1988, bringing the total to 142 with 35,000 members (Berthoud and Hinton 1989). Since then growth has been spectacular with over eight times as many members in 1999 as in 1988 (see table 4-4).

**Table 4-4: Growth of Credit Unions from 1980-1999**

	Number of credit unions	Total number of Members	Total Shareholding	Total Assets £
1980	57	n/a	n/a	n/a
1986	75	21,000	£4,632,000	£5,419,500
1995	460	151,255	£67,642,246	n/a
1997 (returns received as at end Nov 1998)	530	214,660	£105,800,000	£122,300,000
1998	596	251,696	£126,378,365	£147,562,234
1999	641	293,118	£153,359,997	£180,061,508

Sources: 1980 & 1986: Berthoud & Hinton 1998, 1995: Donnelly & Haggett 1997, 1998-1999: authors original research from FSA end of year returns.<sup>4</sup>

<sup>4</sup> As at March 2002 no figures for 2000 were available from the FSA

Though the fastest growing mutuals in Britain (Jones, Paul 1999a), credit union development is still perceived as pedestrian by many inside the movement (Swoboda 1999, Spiers 1999). Partially this is a flawed premise predicated on a comparison with growth in Ireland and the USA where credit unions serve almost half and a quarter of the population respectively (Jones, Paul 1999a). Although the Irish credit union movement did serve 10% of the population 20 years after its introduction (Donnelly and Haggett 1997), in the USA by 1929 there were 974 credit unions, which had only 264,908 members (Moody and Fite 1971). Rapid expansion in the USA only began during the 1930s depression when other financial institutions went bankrupt. Additionally, in recent years the collapse of the Savings and Loan thrifts has presented credit unions with a new market for affordable credit and secure savings (McCarthy et al 2001). Furthermore the existence of building societies may have been a barrier on UK credit union development. It remains to be seen whether the demutualisation process offers British credit unions opportunities for expansion (Forrester 1996).

Disputing this analysis Swoboda (1999) believes there are examples of credit unions in Britain that have prospered, despite cultural and organisational differences. Though undoubtedly true, upon closer examination the successful credit unions appear to share one of two characteristics: they are employment based (Jones, Paul 1999a) or located in the West of Scotland (Donnelly & Kahn 1999). The latter was due to the strong socialist and cooperative spirit in the Glasgow conurbation. Moreover, a similar collective spirit was identified at employee credit unions:

*'Employees have the advantage of being able to recruit new members via newsletters, trade union branch meetings, and social interaction through day-to-day contact'*  
(Donnelly and Haggett 1997:23-24)

By contrast residential credit unions may have artificial boundaries, with no real sense of community and trust (Fuller 1998), while Berthoud and Hinton's (1989) survey of members uncovered no differences in belonging across the sector.

These empirical interpretations counter much accepted wisdom within the credit union movement in which two opposed narratives have evolved; idealists and instrumentalists (Berthoud and Hinton 1989). Idealists believe that credit unions are both community

development tools and financial institutions; therefore common bonds should be identifiable communities, preferable in low-income areas (Thomas and Balloch 1991). Only through this approach can credit unions avoid being 'hijacked' by outsiders. This argument is exemplified by Rimmer (1998) who accused Berthoud and Hinton of '*pathologising*' credit unions and believed much of the literature was '*economisitic*', avoiding oppressed groups, and social and political benefits. Reflecting on her participant observations she noted, '*the project reinforced the argument for some credit unions to retain their smaller community base rather than entering the business arena in competition with other financial institutions.*' (1998:19). According to its critics this perspective has dominated much of the development, especially those sponsored by local authorities who have spent £15 million per year supporting credit unions and their development agencies (Jones, Paul 1999a). The failure of this approach is evident in the plethora of moribund credit unions in deprived areas (Donovan et al 1999) and a lack of volunteers due to the top-down implementation (Dayson et al 1999, Donnelly & Haggett 1997). Instead credit unions should aim for economic sustainability, be open and viewed as co-operative financial institutions (Jones, Paul 1999a). For these 'instrumentalists' (Berthoud and Hinton) '*credit unions should be a business activity, not a religious experience*' (1989:123). Currently these views are embodied in the promotion by ABCUL of 'New Model' credit unions; based on borough or even city-wide 'live or work' common bonds, they employ staff and have shop premises from day one. Between the two extremes McKillop et al (1997) indicated this conflict was a Darwinist process as credit union movements went from nascent through transitional (where they argued the UK was located) and into mature sectors.

In accepting much of this argument McCarthy et al (2001) challenge the argument that volunteerism declines as credit unions develop. Seeing this as essential to the form, they argue for its promotion wherever possible. In contrast, Toynbee (1999) has described credit unions as '*very small savings and loan banks run by the poor for the poor, amateur volunteers working together to help prevent one another falling into the hands of loan sharks*' (1999:14) and has criticised a culture whereby the poor are expected to help themselves and accept a level of service '*that none of the rest of us would bother with*' (1999:14). If true then credit unions are destined to serve the marginalised.

Repeatedly the literature despairs of credit unions' image as the 'poor man's bank' [sic] (Forrester 1994, Donnelly and Haggett 1997, Conaty and Mayo 1997, Donovan et al 1999). However, Fuller (2001) found no evidence to support the perception that credit unions improved financial inclusion, though Thomas and Balloch (1991) believed they introduced stability and hope into people's lives blighted by debt. More explicitly Donnelly and Haggett stated that '*credit unions are not for people who are so poor they cannot afford to save*' (1997:10-11).

Part of the difficulty is that many supportive policy papers promote credit unions' role in tackling financial exclusion, while acknowledging the challenge of being stigmatised (Conaty and Mayo 1997). Hayton (2001) believes there is a contradiction in much of ABCUL's analysis because achieving sustainability and tackling financial exclusion are mutually exclusive. To realise the former requires wealthy members thereby ignoring the latter, and thus credit unions are not a very effective mechanism for reaching the financially excluded. However, a survey of 445 credit union members in Birmingham found that 40 had used moneylenders and 58% of these had subsequently reduced their dependency on them (Feloy and Payne 1999). Furthermore, analysing credit union statistics Berthoud and Hinton (1989) argued that they '*may not have created economic equality, but they appear to be much less unequal than the outside world*' (1989:122).

Aside from these social and cultural factors British credit unions have been hampered by excessively restrictive legislation (Swoboda 1999). This was recognised in the 1990s as government began to implement a more permissive legislative frame, beginning with the Deregulation and Contracting Out Act 1994 (see appendix A). Although criticised, it was not until the election of a Labour government in 1997, that credit unions began to be addressed (Conaty and Mayo 1997).

From the establishment of Policy Action Team (PAT) 14 on financial exclusion, through to the establishment by the Treasury of the Credit Union Taskforce and the proposed amendments to the Credit Unions Act 1979 published in November 1998, the government indicated its willingness to support 'fully the credit unions' ethos of self help and wishes to encourage the movement's growth, and so strengthen its capacity to provide financial services to the poor' (H.M. Treasury 1998:5). Legislative changes introduced included extending the maximum length of loans and raising the maximum

investment by minors. Moreover, these were supplemented by further liberalisation in July 2002 (see appendix A)

These legislative alterations have been issued alongside a tightening of the regulatory framework. Primary responsibility for regulation has been subsumed into the Financial Services Authority (FSA), who have concentrated on the financial stability of credit unions. To achieve this they have tightened the rules on liquidity and introduced share protection scheme for members. This latter change brings credit unions into line with bank customers and building society members and will be used to guarantee investors' savings at the recently collapsed Thameswood CU (Inman 2002).

Informing all these debates was the first thorough research into credit unions, undertaken by Jones, Paul (1999a). Jones argued that many community credit unions were too small and therefore unable to address issues of financial exclusion. A lack of professionalism and a romantic attachment to an unobtainable ideology resulted in a proliferation of mainly small (200 members or less) credit unions, run by over worked volunteers who were encased in a failing model. These were focussing on anti-poverty measures at the behest of local authorities (Swoboda 1999, Spiers 1999). The research demonstrated that only five community credit unions in England and Wales (out of 348) had sufficient assets to afford the employment of a full-time member of staff, compared to 29 of the 70 employee bodies. 40% of community credit unions were financially weak, failing to reach a 'basic' level of financial viability. Revealingly, he dismissed the argument that growth will come through time, finding that the membership of most credit unions reached a plateau at 200, after 9-12 years of operation and most fail to progress beyond that figure after 12 years. He was dismissive of most training, because financial viability was not a key learning outcome and there were no sense of shared benchmarks or agreed ways of measuring progress. There was a fear of volunteer burnout, with 66% of the smallest credit unions thinking this was likely. Most strikingly, 96% of employee credit unions began with the intention of creating a co-operative financial institution, by contrast 83% of community credit unions were established as a community development exercise or assisting the excluded. For Jones *'credit unions are not, in fact, an effective way to build community where it does not already exist...credit unions require mutual trust, which will be lacking if community is weak or non-existent'* (1999a: 96). In conclusion he argued that the movement was

*'vibrant and very successful'* (1999a: 103), but that lessons must be learnt from the most successful, this included a more businesslike approach, larger common bonds with a goal of financial sustainability, a view endorsed by 89% of employees and 71% of community credit unions.

#### **4.5 Summary and Tentative Conclusions**

As the 1986 Act was implemented nobody foresaw the eventual impact on the building society industry. This changed with the demutualisation of the C & G and a wave of conversions, including the Halifax then ensued. For members the C & G windfall established a benchmark for the valuation of their stake and over time this, rather than any business rationale, became the main motivator for supporting a change in status. Eventually individuals saw a potential economic benefit and the aggressive investor, the carpetbagger, was born. However, this functionalist neo-rationalist account fails to explain why every society is not now a plc, or owned by a plc. Equally this failure to demutualise challenges the Neo-Marxist viewpoint that the directors always maximise their interests, at the expense of the workforce. Conventional wisdom has it that members always vote for the money and the B & B conversion confirms this impression. But this remains the peak of the carpetbaggers' achievement, no further societies have demutualised and though they may argue that boards have not allowed votes to proceed, the carpetbaggers have yet to convince ordinary members of their arguments. To date no carpetbagger has been elected as a director to any society and members have backed the boards in the rule changes to make demutualisation harder.

Reflecting back on the model of mutuality developed in chapter two, it is apparent that building societies' management and members discarded all its tenets. Management continued to assume trust would be based on the obedience of members. In turn this undermined the reciprocity between both parties, whilst cultural changes resulted in the abandonment by both sides of longevity and caution when making financial assessments. Although in the cooperative model attention has focused on democracy, it was the lack of educational programme and the concept of transferable ownership that ultimately undermined the building societies. However, this analysis does not explain why mutuality collapsed at this time. This will be continued in the following chapter



when potential organisational and external factors will be explored.

Regarding credit unions, with the publication of the Jones (1999a) report it would appear that the instrumentalists would prevail. They have the ear of the government and the FSA are increasing the regulatory burden especially on smaller credit unions. Economically, as the larger credit unions are growing faster they are by default becoming more powerful, drowning alternative voices within the movement. From this perspective it is difficult to make a positive case for the idealists. Are they like the terminating building societies to be marginalised and ultimately overwhelmed by their larger more professional brethren? Both appear to have a fundamental flaw in that in their desire to tackle exclusion they become exclusive, by virtue of their limited scale. Fuller (1998) has argued this paradox is evident during the decision-making process for the common-bond and Jones (1999a) has demonstrated its long-term economic weakness. Defining community has obsessed the co-operative movement, but the history of credit unions and early building societies indicate that 'effective' mutuality may share more with open as opposed to closed structures. Almost as important has been debates around the sanctity of democracy and participation, this reached extremis during the building society demutualisation furore, with those opposed to mutuality using mutuality to undermine itself.

Unlike building societies, the credit unions have been incorporated into the state during their nascent stage of development. This resulted in two contradictory impulses, that of engagement in anti-poverty activity and community building, versus a desire for financial probity. Therefore, the intervention of the state is an important consideration when assessing the effectiveness of mutuals and will be examined in the next chapter (see 5.2.2)

## 5 Theorising Mutuality in Action

The previous two chapters demonstrated how practical mutuality evolved very differently from the conceptual and theoretical models discussed in chapter two. More specifically, the last chapter argued that two dominant discourses had arisen to explain modern mutuality. A functionalist approach perceived mutuals on an evolutionary journey from humble beginnings, through a growing need for professionalism and ultimately a separation of management and member interests. This results in either decline, or where available the conversion of the mutual to another organisational form. Underlying this narrative is the argument that the organisational structure is inefficient, providing neither the appropriate level of management accountability nor releasing direct value to the owners. In effect mutuals lack transparency in operation creating difficulties for management and frustration for their owners. Consequently this chapter will commence with an analysis of the ownership and democratic functions of mutuals, to assess whether large mutuals are hampered by their structure.

In contrast, a neo-Marxist perspective highlights the specific role of management in the process of demutualisation. Beginning from working-class origins, mutuals are gradually incorporated into the capitalist infrastructure through a combination of increasing regulation by state agents and the encroachment of the middle classes who introduce hierarchies and eventually create professional structures and bureaucracy. In credit unions the struggle against capitalism is exemplified by the usurpation of activists by professional managers, while in building societies the management ignore and subsequently abuse the democratic process through using members' own money to offer them windfalls in order to secure conversion. To help evaluate these narratives the chapter will review the literature concerning the economic efficiency and accountability of mutuals, the role of the middle classes, organisational forms, embeddedness, Thatcherism, globalisation, and new social movements (NSM). From this array of literature an enhanced neo-Marxist perspective will be developed, based on the disembedding of mutuals by capitalist interests.

## 5.1 Assessing Endogenous Factors

### 5.1.1 Economic and Accountability issues

Economically mutuals access capital differently; they are often engaged in low risk activities resulting in slow organic growth; without shareholders they are more reliant on managerial competence, being reliant on long-term relationships. Mutuals' ownership is predicated on the egalitarian principle of one-member-one vote, as opposed to the fiscal weighting employed by joint-stock companies; they have an open membership (although a credit union's common bond does impose restrictions); and being owned by users there is no division between the interests of customers and owners.

As was mentioned in 4.3 proponents of demutualisations believed that larger mutuals were hampered by the inability to raise external capital leading to slow growth, a lack of diversification and an inability to compete against plcs. However, the evidence does not support the need for capital argument, with all but one former society returning capital to shareholders (Cook et al. 2001). Due to the comparative ease of raising share capital through the stock market, increasing capital through organic growth was unattractive (Cook et al. 2001). Furthermore, Llewellyn and Holmes (1991) questioned the logic of seeking access to more expensive money since raising capital through individual members' investment is not accompanied by costs for advisors, accountants and stockbrokers or the payment of dividend on profits. Over the period 1979 to 1989 the four high street banks paid dividends of £3.4 billion, while issuing capital worth £3.7 billion. This net increase of 10% could easily be matched by mutuals. Later Drake and Llewellyn (2001) extended the argument demonstrating that building societies had an inherent margin advantage because they did not need to service capital. Empirical support came from Ellerton et al, who found that the remaining societies operated on tighter profit margins than the mutual banks (the collective name for the converted building societies) and that four of the largest societies could sustain this pricing 'indefinitely' (1997:14). However, a contradictory analysis was made by Moody's:

*'We believe that while the mutuals are currently able to increase market shares, in many cases they do not have the resources to sustain these levels of growth'* (Fliegeman and Maloney 1998:6).

The apparent discrepancy was due to Moody's view that the mortgage banks through diversification would be in a better position to '*cross subsidise mortgage business*' (1998:4). However, they did not explain how premium priced services in a highly competitive marketplace could be maintained. More recently Moody's revised its opinion, finding that building societies were sustaining their margin advantage (BSA December 2001).

According to Drake and Llewellyn (2001) managers of mutuals knew that capital raised through organic growth was difficult to replace and thus took less risks, confirming the centrality of caution within mutuality. Hence mutuals tended to undertake a relatively narrow range of tasks often in long-term relationships, such as pensions, assurance and mortgages. In contrast joint-stock companies were often complex firms involved in high risk activities, as investors, with their limited liability, were prepared to gamble their stake. It is probable therefore that once managers within mutuals started to diversify they were often constrained by the cautious culture of mutuality. Their frustration at this situation made the availability of demutualisation increasingly attractive.

Until the 1986 Act conversion was prevented due to the unique property rights of mutuals in which ownership could not be transferred or liquidated, instead dissatisfied shareholders could simply close their account without losing their investment. Unlike a plc this action imposed direct fiscal restrictions on the management by depriving them control over assets (Fama and Jensen 1983). For savers who retained membership their benefit was *ex ante*, in the form of preferential interest rates. An *ex post* distribution occurs on demutualisation and assumes that the beneficiaries are the same actors who made the original investors. In building societies with reserves accumulated over 150 years this was impossible, leading Clarke (1998) to argue that the current members do not have a moral right to the reserves. Once *ex post* distribution was permitted, the interests of borrowers and savers were divided, especially as new investors saw an opportunity to appropriate the existing reserves with minimal investment (Cook et al 2001).

The absence of effective accountability was a particular concern within mutuality,

becoming more acute as the institution grows. While the same difficulties exist in joint-stock companies, neo-classical economics assumes that monitoring is asserted by powerful voting blocks, tradable shares and the threat of takeover (Drake and Llewellyn 2001). Challenging this, Fama (1980) dismissed the involvement of stockbrokers who were too busy to monitor companies. Instead shareholders delegate responsibility to non-executives, yet supervisory functions along with remuneration committees, were more prevalent in mutuals (Llewellyn and Holmes 1997). This led Drake and Llewellyn (2001) to argue that the specific mechanism to address agency problems, was less important than the outcome of that process. In mutuals the ease of exit by members, imposed particular burdens on management and may be more effective than having elected representation (Hirschman 1970). While across all sectors the degree of competition may be the best form of control (Drake and Llewellyn 1988). Though competition may have a negative effect encouraging firms into high risk areas to appease shareholders, but *'as mutual owners have no direct claim on profits, they therefore have no incentive to prefer risky activities. On the contrary, given the limited deposit insurance, the owner/depositor in a financial mutual has a positive disincentive with respect to high-risk, value-decreasing projects.'* (Drake and Llewellyn 2001). Regardless of this caveat the evidence suggests that the culture of caution protects mutuals from managerial excesses and raises doubts regarding the validity of economic performance based assessment. More problematic is the difficulty of security and democratic accountability. Cook et al. (2001) stated that the difficulty in securing a coalition of voters and the likelihood of free-rider behaviour was a considerable disincentive to become involved. Moreover a lack of transparency resulted in more conflicts of interests in mutuals than joint-stock companies (Hird 1996). Therefore, though mutuals appear to provide at least equivalent accountability as other types of business organisations, it is not automatically superior.

According to the logic of neo-classical economics, mutuals' inadequate accountability structure would affect their efficiency. Davidmann (1996) cited various American research, which were unable to form a consensus on the efficiency of mutuals, though noting that mutual managers were more risk adverse. A positive outcome of this behaviour was that nineteenth century mutuals were larger and had *'survived and flourished much better'* than their joint-stock counterparts formed in the same period (Davidmann 1996:4). However, the same research concluded that joint-stock

companies grew faster and were more profitable than mutuals, although once performance was risk-adjusted McNamara found that efficiency was constant for both organisation types, and mutuals maintain efficiency when there is a *'homogeneity of interests among customers, and inefficient where there is divergence of interests'* (Cook et al 2001:27). To them the introduction of the 1986 Act ensured the latter.

Despite the lack of conclusive evidence regarding the inefficiency of mutuals Barnes (1984) still argued that the management were appropriating resources. More recently this perspective has shifted away from personal expense preferences, and towards direct capture of resources by promoting demutualisation (Barnes and Ward 1999, Davidmann 1996). Davidmann believed that conversion offers managers increased pay, status, income linked to profit, an ability to rapidly increase the size of the institution, protection from hostile takeovers, and clarity of purpose. This analysis reflects the Neo-Marxist egoistic conspiratorial discourse outlined in the previous chapter. Davidmann held that appropriation was a function of lack of understanding regarding the mutual form, suggesting the educative element of the theoretical model (see 2.6) was not being fulfilled.

Alternatively it confirms that mutuals struggle under the dominant discourse of capitalism, where their actual performance was measured and found wanting when compared to the ideal plc (Llewellyn 1997).

Regardless of the environment in which mutuals operate, authors have identified benefits that transcend capitalism. Kay mentions that mutuals are more effective at sustaining *'relational contract structures'*, explaining why they predominate in life assurance and mortgages when a long-term relationship with the customer is required (Kay 1991: 315, Drake and Llewellyn 2001). For Cook et al. these relational contracts ensure *'free and easy flows of information and flexibility of response to changing conditions'* (2001:31) based on implicit trust, essential because of information asymmetries between the customer and institution. This negates expensive explicit contracting and lowers transaction costs. Building societies have used these advantages to offer better service than banks, such as longer opening hours (Gentle et al. 1991). The Treasury Select Committee (1999) disputed this arguing that larger building societies often performed no better than banks, however, Clarke (1998) found that

customer satisfaction was higher in building societies than banks.

Smith (2000), Coles (2001), and Bullock (2000) show that current management of building societies have a clear sense of what mutuality means to them. To Smith mutuals should use their inherent capital efficiency advantage, to deliver more competitive products, maintain a personal relationship with members, because they do not have shareholders; and *'take a longer term view because they are not subject to the short term pressure of the City'* (2000:3). Smith warns longevity requires a greater degree of trust which building societies should not abuse. Finally he outlines how in an atomised society with increasingly variable incomes, there is a need for access to secure *'rainy day money'* and *'the concept of membership, of people clubbing together to help each other out at times of adversity becomes more appropriate'* (Smith 2000:8). Coles (2001) returns to principles and offers six pillars of mutuality: (1) democratic engagement with members; (2) mutual financial indicators; (3) member friendly practices; (4) treating existing members as important as new members; (5) being involved in the wider community; and (6) developing a mutual culture. The first two were present in the cooperative model in chapter 2, the second pair are aimed at maintaining trust and reciprocity and the fifth helps build solidarity. Maintaining a mutual culture captures the values embedded in mutuality and creates barriers to demutualisation. Through an analysis of current membership of the Norwich and Peterborough, Bullock (2000) similarly identifies the need to develop a mutual culture, believing this is achieved by education of the membership as well as staff. Through this process mutuals must earn members' trust through business performance (individual satisfaction), which can result in loyalty and association (brand satisfaction), and ultimately engagement and empowerment (governance). Bullock believed that all three levels were necessary and required constant reaffirming.

It would appear that mutuality retains some intellectual capital among managers of larger mutuals, indicating that smaller institutions are not necessarily more mutual. Moreover, there is no clear evidence to support the functionalist argument that mutuality becomes unsustainable beyond a certain size. However, research does suggest that diversification and a desire on behalf of management to seek an extension of powers are closely correlated to the decision to change status. Therefore the intervention of the management and the role of regulation may offer a more productive

explanation for the changing nature of mutuality.

### 5.1.2 Middle class capture of mutuality

It was argued in chapter 3 that the capture of building societies by managers, was linked to the foreclosure of terminating societies by their permanent brethren, and the imposition of state regulation. This brought in increasing numbers of middle-class leaders who gradually altered the working class conception of self-help, replacing it with paternalism and professionalism. However, it is likely that the founders would have been the most enterprising and articulate individuals within working class communities. The inter-class relationship within mutuals has often been fractious and has resulted in a dual history for the movement (Mellor et al. 1988), one of a divided middle class focusing on either managerialism or idealism, while the working class 'pragmatic idealism' is overlooked and education, which could overcome barriers, was gradually diminished. Consequently where working class members have control of a mutual, they fear losing intellectual purity, not merely because of the attachment to familiarity, but because of the ease in which the values of respectability, self-help, and thrift could be manipulated into endorsing the bourgeois hegemony (Crossick 1978). Moreover, this can also result in the community, which comprise of the collective, being re-designated, such as widening the common bond in a credit union. Yeo and Yeo explained how this process occurs, starting from the perspective that the Owenites established the concept of community and '*..dominated and developed the idea of community as mutuality.*' (Yeo & Yeo 1988: 232). From this they constructed three definitions of community. The first was the working class concept of communities of mutual co-operation; second was the middle class view of community as service; and finally the modern concept of the State as community. In essence the middle classes through voluntary associations, sought to usurp working class communities, such as mechanics halls and libraries. This was an attempt to formalise and regularise communities and in the process secure leadership through '*patronism*'. The idea was to displace mutuality with hierarchy, while retaining the rhetoric of mutuality. The middle classes wanted social harmony without changing society.

*'A characteristic project of middle-class groups has been to marry the two oldest definitions of 'community' and to conceal, or, as they would see it transcend, social*



*antagonism. They have tried to force a union between the community as supplied from above with its basically unequal social structures and community created from inside with its supportive and more ethical human relations' (Yeo & Yeo 1988:238).*

According to the authors this process of interference continues today, with the middle class acting in professional capacity as agents of the state via their '*...inability to leave independent working-class mutuality alone and the recurrent attempt to absorb or replace it with a practice designed to make middle-class service indispensable'* (1988:242).

Yeo and Yeo's analysis has parallels with Kropotkin's rise and decline of mutuals and Winstanley's emphasis on freewill. Through this argument the clichéd pragmatism versus idealism debate, can be seen as a shroud for an attempt by the middle-classes to construct and control the language of mutuality. In this process there is a dismissal of independent collective action and working-class co-operators are instructed about what behaviour is deemed mutual. In effect the middle-classes have usurped the philosophy and narrative of mutuality. From this class based interpretation it is possible to perceive trust as being connected to deference, rather than based on reciprocity and respect. Thus the attitude of mutuals, such as the Portman (4.3.10), is based on an expectation that members are passive and compliant.

Culturally, the development of building societies can be viewed as an accommodation between self-help and paternalism. For Pooley (1991), the employment of self-help whether as thrift and self-reliance, collective action, or altruism, reflected the ascendant cultural values. These values operated within a capitalist society and benefited economically building society managers. Under these conditions Samuel Smiles' 'Self-Help' (1859), was popular as it reaffirmed current practice and enabled politicians to justify their inaction. The inequalities caused by laissez faire capitalism produced divisions within self-help, for Smiles' argument was premised on equality of possibilities, thus those who were successful emphasised the self-reliant aspect, while others stressed the necessity of collective action (Frykman 1991). As Bourdieu (1984) stated, working-class self-help was different due to economic dependency, and therefore collective action was an appropriate response by an isolated group. Moreover:

*'Such expressions of working-class self-help were, however, antagonistic towards the middle-class version of self-help. As a consequence self-help stood against self-help as part of the class struggle.'* (Frykman 1991:3)

This internal conflict operated simultaneously with the cultural clash caused by paternalism, which was used as an agent of modernity, to enclose the traditional norms upon which the original mutuals were based. This resulted in the organisationally ambiguous position of paternalistic management and self-reliant mutualist membership, both of which believed they owned the mutuals. As noted by Boddy (1980), Barnes (1984) and Pooley (1991), building societies were able to sustain this position and satisfy the political establishment fearful of socialism, provided power was centralised within societies and they continued to offer services unavailable to members elsewhere.

Once mutuality is captured it has been possible to argue for growth and extension of services through enhanced professionalism. Additionally, a linguistic discourse was adopted which portrayed the middle classes as professional staff and the working class as shareholders. For example, although the middle classes were responsible for the collapse of the Liberator Building Society (3.1) and promoted community development in a small location as the prime role of credit unions (Jones, Paul 1999b), they used these failures to argue for greater professionalism to improve sustainability.

### 5.1.3 Organisational Theory

Functionalists have long argued that managers capture the firm, engage in self-aggrandising goal displacement and that employees develop bureau pathology, adopting the characteristics of a bureaucracy (Merton 1940). Furthermore informal communication and administration systems become *'increasingly inappropriate'* requiring transition to more *'rational patterns of interaction'* (Leonard 1966:81). In opposition to this, Hall (1991) found the empirical evidence unproven and sometimes contradictory, while only two of Weber's six dimensions of a bureaucracy, hierarchy of authority, and system of rules for incumbents, correlated with size. To Smith (1970) the connection between bureaucracy and size was an over rationalisation prevalent in functionalist thought.

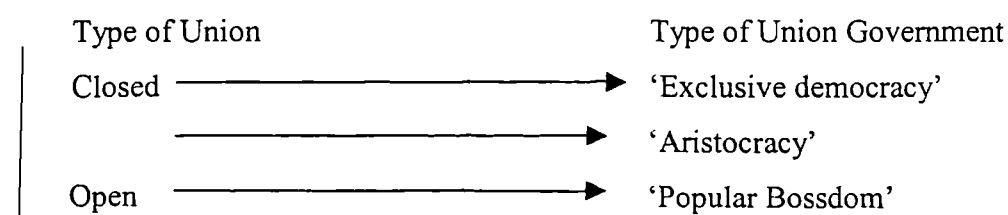
Clarifying the status of mutuals within organisational literature is problematic. In general they may share many of the same practices as joint-stock companies, but their democratic ownership structure affects their objectives. Moreover the marginalisation and reinvigoration of democracy causes oscillations between mutuals' capitalist and socialist aims. These characteristics are shared by voluntary organisations (Michels 1949) and mutual-benefit associations (Blau and Scott 1963).

The gradual 'professionalisation' of building societies resembles Michels' iron law of oligarchy in voluntary organisations. This states that as a democratic organisation grows it requires a bureaucratic structure and technically competent leaders. Centralisation of power is therefore required to improve the effectiveness and efficiency of the organisation. Meanwhile the leaders become better educated than their members, develop separate lifestyles, become indispensable to the organisation and are ultimately assimilated into prevailing elites. Paradoxically, leaders become concerned with the stability and survival of the organisation so will moderate their opinions, thereby losing a further linkage with the members and drift from the original objectives of the organisation (Blau and Scott 1963). Michels 'successfully' tested his theory on revolutionary parties as they *'represent the negation of any such tendency and have actually come into existence out of opposition thereto. Thus the appearance of oligarchical phenomena in the very bosom of the revolutionary parties is a conclusive proof of the existence of immanent oligarchical tendencies in every kind of human organization which strives for the attainment of definite ends'* (1949:50). Once this process begins it creates its own momentum from direct to representative democracy, standing committees, a detached executive and difficulties with communication (Smith 1970). In the UK Michels iron law was affirmed by Allen who held that increasing size and complexity required bureaucratic administration as the purpose of a trade union *'is to protect and improve the general living standards of its members and not to provide workers with an exercise in self-government'* (1954:15). Resisting Michels iron law can be achieved if the organisation remains 'permeable' to new ideas and interests from members, and democracy can be assured by maintaining participation on issues which power can cluster (Craig and Gross 1970). Blau and Scott insist that democratic participation, which is the most effective bulwark against oligarchy, can be best maintained through continual exchange between members and leaders and an educative programme for members to minimise information asymmetries. Alternatively

Gouldner's (1955) perception that democracy alone may be sufficient as the leadership will lose elections if they lose the confidence of the members, is questioned by Lipset (1960), who believed democracy was most effective in a institutionalised and legitimated two-party system. Ironically the advent of carpetbaggers may provide opposition but not legitimation, which could have a terminal effect on building societies. Another strategy is to rely on fluctuation in membership to measure performance (Allen 1954, Lipset 1960). The weakness with this managerial approach is that it replicates economic practice in the capitalist sector, and is methodologically flawed, as many of the actions taken by leaders are invisible to the members (Mills 1956). Overall there is no sociological evidence that democracy alone ensures mutuality, instead it can be viewed as an institutional manifestation of accountability.

Blau and Scott (1963) incorporated Michels' definition of voluntary organisations and the iron law in their typology of mutual-beneficial organisations. When examining mutual benefit associations they discuss two problems: oligarchical control and membership apathy. They argued that at the beginning of an association members are actively engaged in pursuing a common objective. However, this enthusiasm results in proselytising which recruits less committed members who are happy to leave the running of the association to an active minority. Once this occurs a '*vicious circle begins*' (1963:46) whereby meetings becoming uninteresting and voluntary attendees receive paltry rewards resulting in less participation. The difficulty with this functionalist interpretation is that it assumes participation is connected to formal meetings, rather than a series of interdependent, informal, reciprocal relations between members.

Another approach is Turner's (1962) schematic of trade union democracy, which may apply to financial mutuals (see figure 5.1).



5-1: Turner's evolution of mutuals

Turner argued that unions with closed membership were more myopic but had a greater sense of unity leading to high participation rates. Aristocracy occurred where there were different classes of members in a hierarchical structure; and bossdom was exemplified by low levels of participation and a large gap in knowledge between laity and the professionals. Applying Turner's schematic to mutuals we would expect that building societies would be ruled by bossdom and credit unions would experience exclusive democracy. The advantage with Turner's dynamic model is that it permits different mutual experiences. Unfortunately being based on trade unions it does not attempt to assess the impact of paternalistic management, which within building societies resulted in open membership and aristocratic leadership.

In summary Michels and Blau and Scott provide an appealing theoretical understanding of organisational behaviour in mutuals, which reflects elements of their historical development. However, what is not resolved is whether the shift towards oligarchy is beneficial to the members, instead there is an implied assumption that the loss of direct democracy is morally wrong. Though this may be true, Marx and Weber provide insights into the effect of increased managerial control (Edgell 1993). Marx argues that creation of administrative classes divorces the means of ownership from the means of production, however this managerialism does not alter the underlying trend that competition is a coercive force which ensures all organisations must strive to make a profit or die (Blackburn 1965). Additionally this new category merely results in the 'transformation' of the capitalist class (Scott 1982). This poses particular dangers in mutuals where the means of ownership are widely dispersed, as the managerial class will adopt capitalist language in abeyance of any contrary instructions and control; an argument consistent with the behaviour of building society managers in the 1980s and 1990s. A Weberian perspective assumes that managerialism involves a shift to more effective and socially responsible leadership as short-term profit making is replaced by long-term growth and stability (Reed 1992:14). Both of these are the pinnacles of the co-operation model, but Weber warns that leaders' activity entrenches internal conflicts, due to the growing separation between their interests and the owners' interests. Consequently a mutual could have competing substantive rationalities within the organisation, while simultaneously members maximising strategies maybe incongruent with the organisation they own (Eldridge 1971)

*'The fact that such 'outside' interests can affect the mode of control over managerial positions, even and especially when the highest degree of formal rationality in their selection is attained, constitutes a further element of substantive irrationality specific to the modern economic order. These might be entirely private 'wealth' interests, or business interests which are oriented to ends having no connection whatsoever with the organisation, or finally pure gambling interests. By gaining control of shares, all of these can control the appointment of the managing personnel, and more important, the business policies imposed on this management.'* (Weber 1968 [1922]:140)

Thus Weber describes a capitalist environment in which managers appropriate the means of production and yet face an inbuilt substantive irrationality from external actors. Weber's analysis of shareholder companies is remarkably prescient of the rise of carpetbaggers within building societies, while Marx demonstrates how propertyless managers can appropriate resources and then conform to capitalist norms. In general, mutuality has been under-theorised in organisational literature, hence the difficulty in totally applying Michels, Blau and Scott, and Turner's models. Yet alongside Marx and Weber they do suggest some parallels with joint-stock-companies. However, this can be partially offset through reciprocity and an educational programme underpinning democratic accountability.

## **5.2 Exogenous Factors**

### **5.2.1 Embeddedness**

Though internal considerations can partially explain the process of organisational change, they omit any evaluation of exogenous factors. In effect a functionalist interpretation can only apply in a vacuum, as it offers no satisfactory justification as why mutuality is in transition today. Rather it is necessary to extend the neo-Marxist analysis and assess the changing nature of capitalism and state in relation to the dislocation of mutuality.

According to Polanyi (1957) any organisation needs to be embedded within a social framework if they are to be effective and understood, a theme later extended by Granovetter (1985) and the New Economic Sociology School (Smelser & Swedberg

1994; Swedberg 1990). Polanyi adopted a historical analysis to comprehend the evolution of the markets, which if left unfettered *'would result in the demolition of society.'* (1944:73). In the 'Economy as an Instituted Process' (Polanyi et al.) he argued that the 'human economy' was

*'...embedded and immersed in institutions, economic and non-economic). The inclusion of non-economic institutions is vital. For religion or government may be important to the structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves that lighten the toil of labour.'* ([1957] 1971:250).

He dismissed 'formal economics' as 'abstract' due to their reliance on rational action and suggested that the 'real' economy was 'substantive'. Polanyi's historicism has faced criticism from North (1977) and anthropologists who have cast doubt on the 'substantive' economy (Le Clair & Schneider 1968). Sociologically Granovetter (1985) argued that the economy is structurally 'embedded' in networks. This actor-oriented approach (Harvey 2000) departed from Polanyi's institutional analysis, enabling fresh perspectives on 'embeddedness'. Dimaggio (1990) argued that economics was also embedded in cultures, while Baker (1981) and Callon (1998) implied that networks are the economy. Disputing this Harvey states:

*'Thus, the idea of embeddedness here invoked suggests the continuous and overwhelming invasive presence of incalculable externalities in market interactions.'* (2000:21).

Citing Polanyi, Harvey contends that 'dis-embedding' or 'reverse embedding' have historically occurred when *'all factors become commodities'* and *'social relations are embedded in the economic system'* (2000:12). Consequently there is a 'mutual conditioning' between economics and society, which enables Granovetter's theory of networks to be applicable at a micro-level (e.g. motive for gain), and neo-classic economic theory at the macro-level, where instituted economic processes are relatively dis-embedded (Harvey 2000). Harvey's reconfiguration of Granovetter's work omits his nuances and fails to consider his latter view that economic institutions develop their own dynamics (Granovetter 1992).

However, more problematically embeddedness itself may '*treat sociological concepts as bolt-on accessories to core economic assumptions*' (Dodds 1994:26). In using the 'metaphor' 'overlaid' to describe networks relation to businesses, Granovetter suggests economic activity is a separate 'core' beyond society (Dodds 1994). The subjective nature of embeddedness is criticised by Sayer (2000) who perceives it as a theoretical idealised conception stripped of unpleasant egoistic practices. Amin and Hauser (1997) remind us that capitalism is still exploitative and merely because markets are embedded does not imply they avoid being 'harsh and oppressive' (Sayer 2000:8). Embedded practices are not necessarily the outcome of free compromises and agents may be waiting for a different alignment of interest, often in a period of crises. Nor are embedded economic markets free mechanisms that produce unintended effects operating independently of agents (Habermas 1987) and may be swept away as easily as less embedded markets (Sayer 2000).

Though esoteric, the embeddedness literature implies that institutions, such as mutuals, can function effectively until societal values become commodified, or are disrupted by the interests of other social actors. This may cause a particular problem for institutions that offer an alternative philosophy to the dominant discourse. In effect the remainder of this chapter explores the possible dis-embedding of mutuals through its relationship with the state and capitalism, and more recently the severe system crises of globalisation, Thatcherism, and social change.

## 5.2.2 Impact of State and Capitalism

Although inappropriate legislation and regulation has long been perceived as a key factor in the development of mutuals (see chapters 3 & 4), there has been surprisingly little sociological analysis into the nature of the relationship between mutuals and state, though it has been debated in the cooperative literature (Mellor et al 1988, Yeo 2001, Gurney 1996, Killingback 1988). Historically, the state seems to have an ambivalent and sometimes hostile attitude to cooperatives. On occasions cooperatives have been perceived as beneficial because their principles of self-help reflected the state's liberal desires. Furthermore they are sometimes viewed as an acceptable bulwark against revolution, or part of the moral regeneration of the working class (Mellor et al. 1988). Some cooperators perceived risks in engagement with the state due to the cooperation



belief in 'bottom-up' approach and the state's 'top-down' assertion of authority (Fauquet cited in Lambert 1963). Other writers concentrated on buttressing an element of Fauquet's belief that cooperatives could exist in society as a middle way between a strong state and capitalism (Birchall 1996, Carr-Saunders 1938, Fay 1939).

In contrast to Lambert (1963) who believed that nationalisation was the antithesis of mutuality, Gurney (1996) suggested the threat from the state is inspired from the right not the left. Using historical evidence he argued that co-operatives became a 'social' project and therefore divorced from the question of state power once their political activities were prescribed following extensive social conflicts; forcing cooperatives to concentrate on 'legitimate' gradual cultural evolution (1996:16). Killingback saw this as '*a limitation upon mutuality*' (1988:207), commenting that mutuality was '*beautiful*' to the State providing it remained small, unambitious and outside the competitive sphere. As it grew the calls, lead by Conservative politicians and industrialists, demanded that constraints and new taxes were placed on Cooperatives (Killingback 1988). The conflict reached its zenith during the depression when capitalists, from the petite bourgeoisie to the industrialist, wanted controls on co-operatives so they could maintain their own profits. The cooperatives had become too big, too successful, and needed to be controlled. The government responded in 1934 by taxing the surpluses of cooperatives, therefore drawing the parallel between these and the profits of joint stock companies. Yet surpluses were re-distributed to customers via the dividend (a delayed price reduction), rather than expropriated by shareholders.

What was apparent from Killingback's and Gurney's historical accounts was not just the limited understanding that the state had of the motives of co-operators and how it operated as an economic model, but how capitalist institutions shaped the state's agenda. Ultimately this would have a detrimental impact on the way mutuals were legally constituted and treated

In a dispute about the supremacy of private capital or private labour (co-operation, mutuality) and with it the dominance of society (Yeo 1988), it is therefore unsurprising that capital would pursue its objectives more effectively and ruthlessly than mutuals, eventually securing legislation to limit free competition, allow price fixing and define acceptable practice:

*'Co-operative societies were made to accept capitalist definitions of economic activity, which in time thwarted their development. They remained: but the principle of mutuality weakened'* (Killingback 1988:209)

Not everybody saw conflict as inevitable; Marx and Huber feared that co-operatives would accommodate with capitalism (Mellor et al. 1988, Lambert 1963), primarily because of their acceptance of a dividend on savings or expenditure. Indeed partnership was welcomed by conservative cooperative innovators such as Schulze-Delitzsch, who believed that competition shaped the market so that the strong formed capitalist institutions and weak founded cooperatives (Lambert, 1963). Cooperatives' schizophrenic relationship with capitalism is at its most extreme in the USA, where they strive to differentiate themselves from socialism and be considered integral to the free enterprise system (Groves 1985). This should not imply that in practice cooperatives universally share a common philosophy. However, as discussed in 2.6.1 the pursuit of mutual strength through a closed membership evident in the USA, can appear to individuals trading outside the cooperative as displaying little difference in behaviour to capitalist entities. Alternatively it was suggested by Lambert (1963) that mutuals aid the efficiency of the market by production reflecting genuine demand, as opposed to that inflated by a thirst for profit; while Llewellyn (1997) stresses the maintenance of 'fair prices'. This is a variation on Laidlaw's maxim that co-operatives help keep the market honest (Groves 1985), a view endorsed by the Building Societies Association (1999).

The difficulty with any form of accommodation is that the utopian philosophy supporting mutuality was highly critical of capitalism (see 2.1), resulting in an uneasy juxtaposition between commitments to mutuality and the capitalist system. One outcome is that building societies are accused of betraying mutuality, if they behave too capitalist or alternatively described as inefficient if they prioritise members over profits. Notwithstanding this, other authors suggested that capitalist institutions display mutual behaviour and confuse market pragmatism with cultural epistemology (Leadbetter and Christie 1999). Ultimately capitalist organisations will always seek to maximise profits within the boundary of the prevailing degree of social acceptability. What appears to occur within mutuals is a pattern of cyclical interest in the political and social motivations of cooperatives, with bouts of sometimes violent eruptions, preceding

prolonged periods of acquisitive self-interest. The complexity arises because mutuals operate within an alien environment where trust is formalised, limiting reciprocal arrangements; and individualism dominates over society, threatening collective commitments and stability.

### 5.2.3 Thatcherism

The state and capitalism have had a long and problematic relationship with mutuality, but it is my contention that this intensified during the ‘hypercapiatalism’ of Thatcherism and latterly globalisation. As stated in the introduction, demutualisation was not confined to Britain; however, it was in Britain that neo-liberal politicians achieved their most sustained level of success in the Western democracies, through Thatcherism. The extent of the changes wrought by Thatcherism led Reid (1991) and Pugh (1998) to suggest that it was a contributory factor to the process of demutualisation, creating an intellectual climate where such a move could be contemplated and accepted. However, the ‘hypercapiatalism’ (Kreiger 1986) of Thatcherism is not the sole explanation for demutualisation, rather it is probable that a complex interaction of internal conflicts and external pressures are responsible. The remainder of this section will assess the phenomenon of Thatcherism and specifically its policy of privatisation which provided the intellectual justification for demutualisation.

In common with emerging petite bourgeoisie social movements ranging from the National Viewers and Listeners Association, National Federation of the Self Employed, and the National Association of the Middle Class, Thatcher held the Post War Consensus (PWC) was responsible for the crises engulfing Britain in the 1970s, and believed the solution lay in a less interventionist state.

The concept of Thatcherism itself emerged only slowly with Jessop et al. still able to convincingly argue in 1988 that there was a multiplicity of definitions. These ranged from a denial of Thatcherism’s existence, to a personality cult, or interpretations based on the attitudes, policies and strategy of the Thatcher governments. Importantly the nature of Thatcherism has altered over time with uneven consequences and a unity difficult to discern. Moreover, Thatcherism’s inconsistencies have granted it flexibility in application and helped ensure its political appeal and reflect its tactical pragmatism.

To Brown and Spark (1989) it is an ideology of neo-liberal economics and authoritarian conservatism, while Gamble (1983) summarised it as 'markets good, governments bad'. The outline of contemporary understanding of Thatcherism could be discerned in the original pursuit of monetarist policies, which was seen as a realignment of interests away from the industrial heartlands and towards the City and capital (Ross 1983, Nairn 1981). This was connected to the on-going restructuring of state-capital relations and part of a global response to recession (Clarke 1987). In effect the economics of Thatcherism were the precursor to globalisation, an analysis that assumes that globalisation is a neo-liberal capitalist objective, rather than a broader cultural and societal shift.

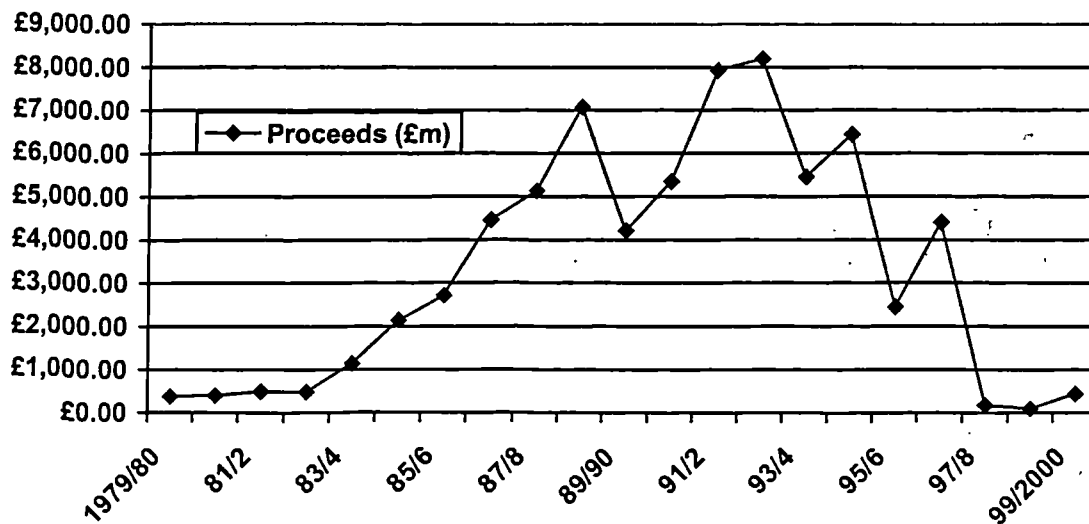
Another perspective emphasises the social effect of Thatcherism, describing it as 'authoritarian populism' (Hall 1983), with the objective of uniting free market economics with a traditional Conservative party concern with social order. Deepening the analysis Williams (1983) linked authoritarian populism with 'mobile privatisation'. This extended social privatisation, first examined by Goldthorpe et al. (1969), in which individuals retreated to private lives within nuclear families, with increasing mobility which undermines the universality of welfare provision. As people individualised and privatised their consumption, they began to question the benefit of a universal welfare state, subsequently adopting consumerist and neo-liberal attitudes. Moreover this analysis can be extended beyond the public sector as the demand for individualised service invaded patriarchal economic structures within the private sector, particularly financial institutions. Additionally as commitment weakened, mobility of consumption increased, thereby undermining the longevity component necessary for sustainable mutuality.

As described in 4.1 building society managers initially saw Thatcherism as an opportunity to reform their 'staid' institutions and expand their services and operations. This conflicted with members who remained wedded to mutuality, while increasingly questioning the motivation and the power of the management. Culturally Thatcherism was eroding the complicit pact between members and management, in which the latter act responsibly and did not engage in excessive personal aggrandisement and former exchanged influence for security and a reasonable quality service.

However, it was the introduction of privatisation that probably enabled demutualisations to occur and is Thatcherism's most significant legacy (Riddell 1985, McAllister and Studlar 1989). Privatisation encapsulated the ethos of Thatcherism emerging as a pragmatic response to the final crisis of state, by increasing income and simultaneously minimising capital expenditure. It was defined as the return of industries, assets and activities to the private sector; based on the premise that exposure to market forces would increase competitiveness, expand consumer choice, widen share ownership and unburden the exchequer. Koldeire (1986) drew the distinction between the provision and production of services, arguing that former was the primary policy objective of Thatcherism, as it involved the withdrawal of state financing for a service. Privatisation according to Edgell and Duke (1991) had five manifestations: contracting out, denationalisation, liberalisation, increasing charges for public services, and encouragement of private sector consumption, most notably housing through right-to-buy. However, it was the privatisation of nationalised industries and the sale of council houses, under the right-to-buy policy that attracted the most interest.

Denationalisation of state owned industries occurred either by issuance of shares, a sale to management/employees, placement with institutional investors, physical disposal of assets, or joint public/private ventures (Edgell and Duke 1991). The extent of denationalisation can be seen on figure 5.2, rising from £377 million in 1979/80, peaking at £8,189 million in 1992/3 before declining rapidly following election of the Labour Party in 1997. In total £69,521 million over a twenty year period was raised in privatisations. Privatised companies ranged from British Aerospace and Rover from engineering, British Telecom, and Cable and Wireless from communications, the utilities of British Gas, and the water and electricity boards, and British Airways and British Rail from transport. As one of the purposes of the privatisation was to promote share ownership, most of the privatisation were accompanied by considerable promotional advertising and heavily discounted share offers, leading to oversubscribed applications and large queues of potential investors on the final expression of interest. All this created a perception that shareholding was popular, successful and exciting, especially as small shareholders invariably made instant profits on their investments. Ritual developed around the process of flotations, primarily due to their frequency, but also an almost Freudian movement from initial offer to the crescendo of launch day. Despite the apparent assurance of profitability, public opinion of privatisation was

polarised, with Conservative voters and the self employed strongly in favour, while public sector workers were against (Edgell and Duke 1991). However, when controlling for type of privatisation (welfare state or non welfare state) the authors found a narrowing of views particularly over the provision of welfare state activities, with only the sale of council housing receiving over a 50% endorsement.



Sources: HMSO 1980-1996; The Stationery Office 1997-2000

Figure 5-2: Proceeds from Privatisations 1979-2000

The complex and dynamic nature of attitudes indicated that support for the privatisation of consumption was most probable where extensive private provision was in general use. This was exemplified by the right-to-buy policy, which enabled council tenants to purchase their property initially with up to 50%, and latterly 60% discount. Sales rose from less than 60,000 in the late 1970s, to peak at 204,600 in 1982, with total sales of council homes surpassing 1 million in 1987/9, before declining to under 70,000 per annum by 1999 (Social Trends 1999). With council house sales reaching a plateau this would indicate that there is only limited demand for further privatisation, a view confirmed by Edgell and Duke's (1991) quantitative research. By the mid 1990s following the housing recession support for home ownership declined, with 74% in favour in 1986 contrasted with 54% in 1996, although as there was some evidence of the opposite view (61% in 1998) as prices started to rise at the end of the decade (Ford and Burrows 1999). Ford and Burrows' suggestion that attitudes track the vagaries of the housing market, indicated that the pragmatism in relation to perception of home ownership highlighted by Edgell and Duke, remained pertinent.

Promotion of home sales proved the easiest and most popular component of the privatisations of welfare state, which offered a collective alternative to individualism and Thatcherism. Therefore a dual strategy of private benefit and reductions in state provision was adopted (Edgell and Duke 1991). However, reflecting Hall (1983) it is likely that the narrative of 'crisis' within the welfare state created an environment in which non-collective action was socially acceptable, 'sensible', and even the 'duty' of a 'good citizen'. Thus Thatcherism designed a self-fulfilling prophecy of decline, a discourse which has been similarly employed by carpetbaggers with regards to building societies (see chapter 9).

Thatcherism arguably enhanced micro-economic emancipation for the petite bourgeoisie, by undermining the existing culture of paternalism, while simultaneously protecting this new emancipation by minimising avenues and mechanisms of protest. In this way Thatcherism can be presented as a cogent and pragmatic theory of individualised consumerism, although it fails to address how a reformulated consensus can be sustained to ensure long-term political stability. This could be described as the myth of the mantra "no such thing as society". Not only does Thatcherism contrast with mutuality, its implementation fundamentally challenges existing financial mutuals. Any theory incorporating privatised individualism diminishes the reliance on reciprocity, weakening communal bonds. Furthermore, in order to survive organisations may adopt a brusque approach to democracy; this ultimately collapses if sufficient members employ their newly found economic power to overturn the political regime. Though this resulted in demutualisation, it also has a detrimental impact on smaller mutuals. With increasing emphasis on individual needs, collective provision is attractive only on ideological grounds and for excluded groups. However, while this provides a short-term stimulus, it ultimately deters wider society and becomes associated with residual supply. Thus credit unions are seen as the 'poor mans bank' and building societies are instructed to have a stronger community commitment (Treasury 1999).

A similar outcome is already present in housing, where the sale of council properties has been accompanied by declining expenditure on the remaining publicly owned stock, reducing it to a residual provision for the poorest members of society (Malpass 1983). Consequently there is a contradictory effect of Thatcherite housing policy on mutuals.

Though building societies benefited from the rapid increase in home ownership via right-to-buy and the withdrawal of local authorities from the mortgage market, the state encouragement of private consumption of housing may ultimately undermine mutuality. Early confirmation of this came with the abolition of the Cartel and rationing of mortgages (see 3.2), resulting in more account turnover and a reduction in reciprocal arrangements between staff and members. In the longer term if the purpose of right-to-buy and shareholding was to legitimise the general notion of private ownership of property, then it would be a small step to suggest that building societies, as collective providers, should be transferred to the private sector. In effect Thatcherism challenged the paternalistic management of building societies, disrupting the reciprocity between members and staff, and providing the intellectual justification for their conversion, while simultaneously marginalizing those that would not or could not become limited companies.

#### 5.2.4 Globalisation

The process of disembedding of mutuals began by Thatcherism, was given added impetus by globalisation. Prior to economic liberalism in the 1970s the activities of building societies and housing finance in general were detached from the international financial markets (Hamnett 1994). However, as described in 3.2 shifts in global financial systems were used as justification for the wave of demutualisations in the 1990s. These events are often represented as occurring outside the envelopment of states (Ohmae 1990) and beyond national control (Kapstein 1994). Others (Lash & Urry 1987; Giddens 1990) have used the transformation in international financial systems to justify a broader change – namely the processes of disorganised capitalism and globalisation. This ‘otherness’ of change, offers a challenge to the concept of embeddedness, especially in the global financial market, where the transmission of money permits the separation of exchanges in time and place (Harvey 1982). Thus this element of globalisation effectively disembeds all existing relationships, undermining connections based on longevity and reciprocity, while increasing the commodification of society. Harvey was developing thoughts first expressed by Simmel in the ‘Philosophy of Money’ (1990[1908]), that money allows us space by neutralising the need for proximity and the frictions of life. This according to Harvey has become more relevant when combined with technology and the compression of time and space



(1989). The anonymity of money and lack of physical form (more a belief source) made it an ideal transmission for exchange relations in a technological age. Extending the logic of this argument it is probable that institutions that use money as their product will be more susceptible to any technological changes and time-space compression, with all the implications that carries for the embeddedness of those organisations.

Drawing inspiration from Adorno, Dicken (1998) saw globalisation as the end of the nation state and the homogenisation of culture (Featherstone 1995). Whilst Spybey's (1996) belief that it penetrates all aspects of our lives, connects with Robertson's (1992) phenomenological argument, Cohen and Kennedy (2000) disaggregate this from globalisation (which they describe as an external process) and adopt globalism to represent the subjective personal way we are drawing together. Collectively these authors emphasise the social change aspect of globalisation. Rather than being ensconced within nation states struggle is '*transposed to members of a figuration of interdependent and competing nation states*', which when added to the intensification of trans-societal flows are limiting unilateral state action, '*then we have moved towards the globalisation perspective*' (Featherstone & Lash 1995:2).

Broadly four discourses emerge from the literature (Waters 1995) to describe globalisation: (1) a historical process that preceded capitalism; (2) an outcome of modern capitalism; (3) a product of late capitalism (incorporating concepts of disorganised capital, post industrialisation and post modernity); or (4) a global predominantly non-institutional process. According to Robertson (1995) theorists adopt either the homogenisation (Giddens, functionalist, and Marxists) or heterogenisation (Said 1978, Hall 1992) narratives. The former believe in a world-system, the presence of the universal in the particular, imply '*convergent development*', and employ a '*scientific and realist epistemology*' (Robertson 1995:4). While '*heterogenisers*' dispute these claims arguing that dominance of the West demonstrates the particular over the universal and consider themselves as '*hermeneuticians*' accepting their reflexivity and attempting '*intertranslatability*'. However, regardless of their theoretical stand most of these authors believe the intensification of globalising tendencies is unique.

Axford (1995) criticises the '*unquestioning certainty*' of the global economy doubting the related assumption that somehow economics, rather than politics or culture is better placed transform meaning, structures and identities. Instead globalisation is an

asymmetrical process with multinational corporations wanting liberalisation, against regional trading blocks that are established as a response to the uncertainty caused by globalisation. Furthermore, Porter (1990) doubts the existence of global companies, arguing that multinational corporations are embedded in their home nation and rely on their national government to support its interests.

In contrast, Castells (1991) links social change to technological advances. Not only does this technology enable growth in exchanges but that this increasingly occurs in 'real time'. This brings different cultures, economies and people into closer and more intimate relationships and this new interconnectedness happens so fast that the nation state is unable to manage and monitor. This enables the creation of new political spaces outside of state boundaries (Marden 1997). Therefore in economic exchange the use of cyberspace can mean that technological connections become more important than physical location (Dicken 1998). This may effect the reciprocal relations predicated on physical proximity.

These socio-economic arguments are supplemented by alleged effects of modernity (Giddens 1990), particularly changing concepts of space and time, which enables them to be experienced in isolation and disconnected from concrete places.

This was due to safer and quicker travel and communication combined with precise measures of time and space. As a result interpersonal interactions declined causing disembedding. This led to a reliance on abstract systems of knowledge and impersonal communication (sans Weber's Iron Cage). Humans were able to sustain complex interrelationships by the linking of space and time distancing with reflexivity which collectively 'stretched' social conditions. Cohen and Kennedy (2000) dismissed Giddens analysis as '*modernity writ-large*' (p50) arguing that globalisation has its own unique features notably the sequestration and incorporation into a global environment of the developing world by the imperial powers. While for Robertson (1992) Giddens' discourse was illogical and incomplete, arguing that Giddens fails to successfully link time-space distancing to modernity, since if globalisation is a consequence of modernity, then it has to demonstrate that distancing, disembedding and reflexivity, are central to modernity. But not only is Giddens unable to prove these are unique to modernity, he compounds the error by stating that the process of modernity was

connected with the emergence of the nation states and institutions, thereby disqualifying 'non-institutions' such as distanciation.

Even allowing for the exaggerated claims of Giddens, his time-space distanciation does have a value (as Robertson accepts 1992:143) in helping us understand the process of globalisation. Connecting advances in technology and telecommunications that have reduced the costs of travel, with a wider availability of information thereby reducing time horizons and faster dissemination of decisions, have left humans floundering to cope with this comprehension of spatial and temporal worlds (Harvey 1989). Consequently as the conceptualisation of place has become problematic (Massey 1994) partially due to ethnic mixing and the resultant nationalism, there has been a construction of spatially diverse 'imagined communities' (Anderson 1983). These communities drew upon Gemeinschaft principles, which may undermine the cohesiveness of more Gesellschaft attitudes found in building societies.

The compression of time and space has hastened the spread of modernity, whether imposed by force or choice. Modernity both changes and is changed by interaction with new social actors; which is aggravated by the growth of reflexivity. Reflexivity both originates in the concept of doubt in science, but through its practice ensures challenges to the legitimacy of the ruling elites. This is '*reinforced by an intense disillusionment with the consequences of modernity and the idea of material progress*' (Cohen and Kennedy 2000:36). However, advances in science and economic uncertainty forces us to trust experts (Beck 1992) at a time when deferential relationships are diminishing. Culturally, globalisation can therefore be perceived as the result of the '*universal logic of modernity*', with increasing levels of '*abstraction*' '*disembedding*' and '*hollowing out*' of meaning (Featherstone & Lash 1995:2), 'exacerbated' by deindustrialisation and the subsequent emergence of the informational society. For mutuals this may have a profound affect. First, distanciation challenges the concepts of personal trust and reciprocity, by removing the necessity for personal interaction and shared spatial communities. Second, this distinction and the reduction in deference, detaches members and management, resulting in increased reliance on commodification and abstract trust.

The concept of globalisation should not be viewed merely as a one-way process. To

Giddens (1990) local events and cultures may be influenced by global factors, but for others (Robertson 1992, Luke 1995, Beck 2000, Beynon & Dunkerley 2000) local can and does effect the global. Classen (1996) stated that global experiences are incorporated selectively, often depending on whether they enhance the position of local elites or are considered desirable. With the merger between local and global identities it becomes impossible to locate a 'pure' local, instead the local is a 'micro' of the global. This re-making of locality re-iterates the compression of the world (Robertson 1992), in effect globalisation is itself, its opposite, and its process (Friedman 1995) which presents an unresolved teleological problem.

Rather than a conflict between systems or the re-embedding of the global in the local Robertson (1995) argues it is a process of 'institutionalisation' whereby local particularism is created globally. This activity can range from *unstructured universal* process of localisation, to the promotion of local/indigenous identities by global groups. Interpenetration between the particular and universal and the effects of time/space compression, opens a perception of globalisation as a reflexive dialectic in which we are all actors. The local translation and transformation of the global is considered by Beynon and Dunkerley to be as important as the '*lateral extension of social connections across time and space*' (2000:36). This growing relevance of locality is in itself a response to globalisation (Harmsworth 2001). Thus Robertson releases globalisation from economic determinism, by emphasising the paradoxes caused by the interventions of individuals. The participation of individuals in global finance, economic, and cultural exchanges 'shrinks the gap' between global and local (McGrew & Lewis 1992) causing a '*reconceptualisation of spaces*' (Harmsworth 2001:4). However, Castells (1991) suggests that a simultaneous and contra process is evolving whereby people withdraw into their communities as a defensive mechanism against the vagaries of globalisation, under the principle that '*if you cannot control the world then you could control your neighbourhood*' (1991:18) or a '*comfortable space*' (Hannerz 1990:248) free from external valuation. Alternatively it could provide easy access to the world (Strassoldo 1992). Thus while the local provides security, consistency, and control in an unpredictable and every faster global, it also enables the individual to create a framework within which they can understand and comprehend these changes. As such globalisation enhances the local community, while glocalism provides a 'psychological construct' for the individual (Harmsworth 2001).

For mutuals not only have they been structurally disembedded by capitalism, but their culture values may have been incorporated, either into a hybridisation with capitalism, and/or become hyperreal (Luke 1995). Hyperreality occurs when an artificial reality is constructed by the media and subsequently absorbed by reality. Thus mutuals are simultaneously expected to adopt capitalist norms, while being compared to an idealised construct of mutuality. Furthermore the glocalisation literature suggests that resistance is both an outcome and function of globalisation, and this is undertaken locally to manage its encroachment, as individuals seek to make sense of their lives. Therefore mutual organisations are both subjects of glocalisation, as in the spread of credit unions as community based financial institutions and subject to it through internalised centres of resistance, as in the activity of carpetbaggers within the building societies. However, this form of ‘collective individualism’ unlike other resistance groups seeks to remove a possible oppositional and glocal force to unfettered capitalism, through the presentation of modern mutuality as a perversion from ‘hypermaturity’

### 5.2.5 Social change through New Social Movements (NSM)

Most of the literature on resistance arises out of writing about New Social Movements (NSM), hence there is an inherent bias towards either the left through discussions regarding environment, peace, and women’s studies (Zirakzadh 1997), or nationalist and religious struggles of identity (Oberschall 1993). Castells (1997) attempted to synthesise these but continued to frame social movements as offering an alternative to neo-liberal capitalism. Unaddressed is whether individual proponents of globalisation who establish oppositional forces within collectivist organisations are considered as a social movement? In Byrne’s (1997) overview, although the New Right is classified as a possible NSM because it sought to change society, it is disqualified by its willingness to work through the existing structures of the Conservative Party, as it did not question the existing conduct of politics. However, carpetbaggers operate within a society they wish to transform and do not function through conventional sources of power.

Initially it is necessary to assess whether carpetbaggers are a protest movement rather than a NSM. A ‘pure’ social movement offers a fundamental challenge to the prevailing culture involving both protest and identity. It is autonomous, has no formal

structure and does not interact with established political authorities. But some social movements could be seen as protest movements as they draw on a wider body of supporters who are interested in a specific topic, for example, the Poll Tax demonstrators. NSM differ because they seek a cultural change through a series of indivisible objectives that cannot be moderated through conventional politics. Moreover, protest movements are often the public face of wider and deeper social movements (Byrne 1997). This analysis is problematic when considering carpetbaggers since although they have a single objective; they operate within a type of society and are therefore seeking an irreducible culture transformation of that society. Similarly, if NSM are assessed by the processes they employ, such as the rejection of hierarchical, elitist politics and demand a decentralised and libertarian approach, then carpetbaggers may qualify (see chapter 9).

With the end of deference, conventional class-based party political cleavages became increasingly irrelevant (Marsh 1977), apparent through electoral apathy, volatility, and dramatic falls in membership of political parties (Byrne 1997). Instead individuals and groups have sought to by-pass the conventional political mechanisms both to achieve their objective of communicating with the general population and as means of expressing the rejection of the existing order and its norms. For Melucci et al. (1989) this NSM desire to reach beyond the political elites, as their demands cannot be achieved through reform, instead they want a thoroughgoing revision of the way society is constituted. Heberle (1951) saw this absolutism as a threat to the established order, which was based on tolerance and the respect for the views of fellow members of the larger community. In opposition to formal structures NSM created looser informal bonds (Diani 1992) with segmented, 'polycephalous', interaction networks (Gerlach and Hine 1970). Through these networks individuals could come together to organise, share values and to participate in mutual education. NSM were based on individual autonomy, therefore central coordination was often rejected and events were organised locally. Although this sometimes led to disjointed campaigns, its flexibility allowed for tactical dexterity, enabling groups to test and refine approaches. Most importantly for supporters both the message and process for delivery of that message, were a rejection of the existing order and its norms. (Zirakzadeh 1997, Byrne 1997).

This avoidance of conventional structures mirrored the demise of collectivism and

collective action. With rises in unemployment and employment deregularisation the informal networks that sustained the labour movement were diminished. Alongside this the impact of privatisation and neo-liberal politics (5.2.3) led to a decline in the welfare state, breaching the social contract between the state and the citizen. A breakdown in reciprocity and trust, combined with the death of deference resulted in a crisis of legitimacy, in the meaning and functions of state, and made it increasingly difficult for institutions, such as churches, to enforce cultural norms (Castells 1996). These organisations and institutions had *'become by and large, empty shells, decreasingly able to relate to people's lives and values in most societies'* (Castells 1996:355). Analogous sentiments were expressed by Bellah et al. (1985, 1992) when discussing the dialectic reality of individualism, believing that utilitarian element represented through personal success, had been prioritised as the expressive element of civic responsibility. As a consequence social solidarity was under threat, this was not due to narcissism, rather it was a function of the banalisation of the workplace and the separateness between the citizen and the polity. Narcissism was the outcome of this process, not its cause, as individuals sought meaning in their lifestyle enclave. Furthermore, the intrusion of the state into personal spaces has resulted in a rise of expressive politics, concerned with protecting ontological values (Parkin, 1968). These have challenged traditional rational functional views, that social movements were ultimately always driven by individual instrumentality have been found inadequate (Kriersi et al 1995) and Olson's free-rider principle collapses when the costs become the rewards (Hirschman 1970, Chong 1991).

However, nor are NSM the rage of outsiders, as classical American accounts argued (Mayer 1995). Instead much of the membership is drawn from educated welfare professionals (Parkin 1968), although even here, rationalists continue to state that they only become engaged for instrumental reasons (Burklin 1985, Frankel 1987). In contrast Melucci (1992) highlights how NSM seek to recast language and cultural change, and that the effect of this expressive motivation is often disguised, as it occurs through interpersonal relationships. This reliance on localised informal groupings and promotion of reengineering of identity through self-awareness, neither resolves the differences between individuals or the diversity of their individual goals. Instead individuals continue to struggle to understand society and their place within it (Lyman 1995)

Furthermore, NSM are reduced to another representation of the consumer society ultimately selling individuals holograms of identities. Evidence that NSM, as a collection of individuals lacking an ideology become a pastiche of their former selves, may explain the loose federation of carpetbaggers. Equally it could be argued that mutuality was an early social movement and contemporary interest represents a reawakening of a collective identity.

However, using the resource-mobilisation approach (Zirakzadeh 1997) it could be argued that credit unions grew not in response to a renewed interest in mutuality, but rather as a function of the support provided by various agencies and government. Furthermore, this is affirmed by the political opportunity structure theory, which stresses contextual factors, in particular the space allowed by the political system. Consequently the nature of social movements is influenced and affected by the accessibility and outcomes of conventional politics. With regards to carpetbaggers their resistance could be a function of the difficulty having a voice within building society democracy.

Castells (1997) connects these explanations for the growth of NSM with the effects of hypercapitalism and technology. He believes that a new society with a culture-centred view of the world is divided between the old logic of strong power and the new logic of a self-centred view of the world. Alongside this has been an emergence of powerful resistance identities either of traditional nationalist values or NSM. So a network society exists of pervasive resistance identities and individualistic project identities, that resist but communicate neither with each other nor with the state. Thus we have identity-less individuals (global citizens) and resistance movements attracted to communal identity. The new conflict that arises from this dichotomy is around the cultural codes of society. Thus knowledge in both its creation and its transmission, become crucial to NSM as it both informs cultures, while establishing new NSM (Eyerman and Jamison 1991). Messages are increasingly transferred via the internet where they can project an image, usually through a 'spectacular', to force a debate and induce people to participate. Although Castells is predominantly referring to religious and nationalistic movements, the carpetbaggers use broadly similar techniques and the attempt to convert three societies at once received considerable press (see chapter 4). This activity provided support for Castells' view that new communication technology is



fundamental to the identity of these organisations, acting as both recruiting officer and empowering grassroots and organisational activity. For building societies the question is whether the lessons from the relationship between carpetbaggers, democracy and use of technologies can be employed to preserve mutuality, or whether the cultural codes have become so distorted they are almost meaningless?

In summary carpetbaggers seem to display the characteristics of a protest group, as they come together to address a specific issue, which they are individually concerned with. Yet as will be discussed in chapter nine their behaviour and approach is symptomatic of a NSM. The incongruence of this position is further explored in the conclusion (11.3.3). By contrast from the literature mutuals cannot be currently considered a NSM, as they possess a formal structure and engage with the existing political establishment. However, individual members of mutuals may share many of the same values as NSMs, and use their membership to promote the adoption of policies replicating or similar to those of a NSM.

### **5.3 Tentative Conclusions**

At the commencement of this chapter there were two meta-theories to explain the changing nature of mutuality. The functionalist interpretation saw demutualisation as the inevitable result of expansion in which building societies become detached from members to the point where accountability was non-existent and a conversion was an appropriate action. However, a review of existing literature found neither definitive causality, nor evidence that accountability would improve with demutualisation. Rather mutuals appeared to offer equivalent performance to joint-stock-companies, while comparisons ignored the 'caution' inherent in the mutual economic model. Instead the evidence suggested that mutuals can be successful and sustained if they deliver reciprocity and an educative programme for members.

The other perspective, which I described as Neo-Marxist egotistic conspiratorial, placed greater stress on the role of management within mutuals. Certainly this chapter provides some support for this analysis. The appropriation of resources, the takeover of mutuals by middle-class professionals, and Blau and Scott's (1963) typology of mutual

beneficial organisations, all suggest that the intervention of management was an important factor. However, there were two drawbacks with this interpretation: it does not explain why the challenge to mutuality arose in the 1980s; or why new mutuals, such as credit unions were being created.

The remainder of the chapter developed the Neo-Marxist theory, with particular focus on the embeddedness of mutuality. Eventually it indicated that a sophisticated synthesis between the Neo-Marxist structural thesis, with a cultural post-modern glocal turn (For ease of reference I have hereafter entitled this the embeddedness perspective).

Accordingly, demutualisation occurred because building societies become disembedded from society. First, in political and economic sphere through Thatcherism and subsequently economic globalisation, both of which marginalised any centres of opposition to the neo-liberal narrative. Second, the culmination of paternalism resulted in an accountability deficit and a transformation in the trust relationship between members and management. This occurred during the post-modern turn in which concepts such as mutuality were reconfigured and represented in a purer form. Members, having being alienated and emaciated from conventional politics, sought power through the assertion of rights in those institutions most likely to respond; namely mutuals with their democratic structures. Alongside this assault on mutuality a counter-culture of opposition to globalisation, glocalism, established a space for new mutuals, such as credit unions. Many of these new entities deliberately prioritised social over economic objectives and based their attachment on a small locality.

The historical account outlined in chapters three and four, indicated that changes in relationship between members and management of mutuals was a continual process that began with the creation of permanent building societies and the growing reliance on abstract trust. Furthermore this was not a linear process as trustworthiness was periodically diminished and replenished. However, chapter four suggests that the change of government in 1979 and subsequent legislation quantitatively and detrimentally affected building societies. Meanwhile credit unions that had struggled for survival under the Thatcher government were given fresh impetus by the election of Labour in 1997. As noted on page 132 the historical accounts adopt either a functionalist and narrow neo-Marxist interpretation of these changes. Chapter five

while assessing these analyses added a more sociological perspective, to argue that the embeddedness of mutuals was central to understanding their transformations. To assess the validity of my interpretation of the history and literature the remainder of the thesis empirically explores the comparative validity of all three perspectives. At the core of the presentation of the empirical data are two questions:

- 1) Was there a culture change within and outside mutuals that would threaten or disrupt a mutual culture? If so what was the nature of this shift?
- 2) Was there a structural shift in economics, politics, or society that would potentially undermine the mutual organisational form? If so what how did this affect the relationship between mutuals and members?

To answer these questions it is necessary to return to the 'cultural of mutuality' and 'co-operative organisational' models discussed in chapter two. In the subsequent chapters each element of the former (trust, reciprocity/habit, longevity, and caution) are employed to discuss the alleged cultural changes. It is my intention to demonstrate that the mutual culture has been differentially interpreted by various social actors (managers, members, and active members) involved in mutuals, hence each of the chapters covering the findings from these social actors (7,8, and 9) will begin with an analysis of their understanding of mutuality. The triangulation chapter will synthesis this information and explore any deviations across the research subjects. A similar process will occur with regards to the co-operative organisational model, in which its elements of education, ownership, solidarity, equity through collective economics, democracy, and stability, will be explored by asking all three social actors about their roles and relationships with each other.

To supplement the two broad questions the final part of each chapter will examine in more detail the specific influences suggested in chapter five. Therefore issues of professionalisation and paternalism within mutuals will be assessed. Furthermore respondents will be asked their assessment of the effect of organisational scale and Thatcherism on mutuals. Finally, other exogenous factors including the effect of capitalism, the role of the state, and the impact of globalisation will be addressed. Collectively the final two chapters triangulate and assess the changing nature of the mutual cultural, the relationships within mutuals, and an assessment of the three theoretical interpretations.

## 6 Methodology

With mutuality lacking a strong empirically based sociological literature, this thesis has had to rely on the evidence gathered during the fieldwork. As explained in the introduction this resulted in a analytical induction (Denzin 1989 [1970]) approach being adopted, supported by grounded theory (Glaser and Strauss 1968) as a heuristic device when employing cyber-ethnography. To enhance the validity of the data and the veracity of any conclusions three different types of research methods were undertaken. They were: (1) 28 in-depth semi-structured interviews (11 with building society chief executives, 12 with credit union directors and staff, and five with other interested parties); (2) two surveys of 100 building society members and 78 credit union members<sup>5</sup>; and (3) two years of observing three bulletin board websites dedicated to issues around carpetbagging and building society demutualisation. Though it was intended that the three methodologies would provide triangulation, the prime justification was to establish an understanding of different perspectives of mutuality from differing social actors.

This chapter considers the methods employed in the research, their application, process, benefits and challenges, and analysis. More technical information, including interview questionnaires, lists of interviewees and coding frameworks are contained within the appendix. Table 6.1 presents a chronological account of the research. It shows that the observation was concurrent to the interviews, while the questionnaires occurred in specific periods during 2000.

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<sup>5</sup> To ensure anonymity the four mutuals are henceforth called Community CU to represent the community credit union; Employee CU to represent the employment based credit union; National BS to represent the national building society; and Regional BS to represent the regional building society.

**Table 6-1: Research Chronology**

<b><i>DATE</i></b>	<b>OBSERVATIONS</b>	<b>INTERVIEWS</b>	<b>SURVEYS</b>
January 1999 to April 1999	Observation of Carpetbagger.com Website bulletin boards begins		
May 1999	Observation of SOBS.org.uk website bulletin board commences		
July 1999		Building society executives pilot interviews	
August 1999 to December 1999		Building society executives interviews commence	
January 2000	Termination of observation of SOBS.or.uk		
February 2000	e-mail correspondence with Carpetbagger.com webmaster begins		
March 2000	Observation of Moneybag.com begins		
April 2000			Conducted survey of credit union members
May 2000		Final interview undertaken	
August 2000			Conduct survey of regional building society members
December 2000	Withdrawal from observation of Carpetbagger.com & Moneybag.com		Conduct survey of national building society members

## **6.1 The Interviews**

Alongside the observation of the websites this was the main method of research employed in this thesis. However, unlike the observation, the interviews provided information on the beliefs and attitudes of both credit unions and building societies,

enabling the author to contrast these different types of financial mutuals. Neither of the other methods employed provided an insight into how building society and credit union leaders and management perceive themselves, their institutions, their industry, and mutuality. Consequently it was decided to seek interviews that explored these issues in greater detail, and ensure a counterpoint to the carpetbaggers, from which it was hoped to address some of the internal explanations for the paradoxical condition of mutuals.

### 6.1.1 Design and Construction of Interviews

Having employed analytical induction and used grounded theory as a heuristic device; the questions in the interviews were partly generalist in nature to ensure that emergence of theory was not preconceived (Glaser 1992). However, in agreement with Strauss and Corbin (1990) it is inevitable that questions will be influenced by other data collection and literature reviews, while it is also necessary to verify possible theoretical suppositions to ascertain the validity of the author's ultimate grounded theory. Unfortunately, Glaser and Strauss' critical exchanges regarding this subject prevent them from seeking any hybrid solution. I would argue that asking general questions around different theoretical positions could be compatible with the need to avoid direct questions. For example, all the interviewees were asked, 'What do they understand by mutuality?' thereby avoiding any mention of the theoretically constructed component parts discussed in 2.5.

### 6.1.2 Conducting Interview Based Research

Kuhn (1962) describes interviews as the interactional situation during which information is exchanged in an informal manner. Through this technique the interview avoids becoming an extension of surveys whereby the interviewer asks questions which elicit responses with the interviewee. *'When interviews take this form, they become authoritarian exchanges in which the power and prestige of social science shape the information that is given.'* (Denzin 1989 [1970]: 103). Interviews offer a flexibility of form in which the skilled interviewer can probe and explore the subject's views and understanding of reality (Bell 1993).

Interviews are not without limitations. Primarily the benefit of adaptability permits the subjectivity of the researcher to contaminate the data. Bias can emerge either in the

construction of the questions prior to the interview, during the interview itself by the conduct of the interviewer, or following the interview during the analysis. Whilst I acknowledge that it is virtually impossible for subjectivity to be eliminated, to minimise these factors I took the following precautions. First, the questions were, wherever possible, open and general allowing the interviewee to explore a range of topics. Second, during the interviews I sought to be consistent in both the manner and order of asking the questions. On a number of occasions this involved carefully avoiding offering my own opinion when asked by the interviewee. However, to maximise the benefit from the process supplementary questions were prepared for each interviewee (though due to time constraints not all were asked) and during the interview follow-up questions either to clarify or explore a previous point were asked. Finally, all the interviews were either recorded and subsequently transcribed or if the interviewee did not agree to a tape recording, extensive notes were made and transcribed within 24 hours of the interview. Once this process was complete to increase my objectivity I did not undertake the analysis of the transcriptions for six months.

A particular issue is the extent of time spent on the interviews beginning with arranging the interviews, through conducting, transcribing and data analysis. Among these arranging the interviews was most problematic as all involved negotiations through gatekeepers where trust had to be first established.

### 6.1.3 Preliminary Work and Pilot Study

Prior to undertaking the interviews I spent a considerable amount of time making contact with representatives of building societies and credit unions. During these informal discussions, topic areas for the subsequent interviews were covered. Once the questions were formulated I conducted pilot interviews with the staff of a development agency on the 19 July 1999 and a Chief Executive of a small building society on the 28 July 1999. In both cases questions were tested but the responses were not recorded and any data collected was not used in this thesis. Nor were these counted towards the 28 interviews conducted.

### 6.1.4 Gatekeepers and the Selection of the Sample

While the questionnaires and the website observation provided information on

members, it was thought that the interviews should focus on the management and leaders of financial mutuals. In selecting this group I was aware of the difficulty in obtaining a representative sample, although a more immediate problem was making contact with any potential interviewees. My initial interviewee introduced me to a colleague at another small building society, whom I subsequently interviewed. However, I was unable to receive any further referrals, and attempts at contacting building societies directly proved unsuccessful. I later learned this was not because of opposition to my research matter; rather they were busy men (to date all chief executives of building societies have been and continue to be men) running large operations who regularly had requests for interviews by researchers. With the research apparently floundering I received some good fortune when a mutual acquaintance introduced me to a prominent contact within the building society sector. Not only were they available for interview in November 1999 but they subsequently agreed to act as gatekeeper to confirm my bona fides to building society chief executives. Meanwhile, the BSA Trust agreed to fund my travel expenses for the interviews. No conditions were placed upon the researcher but I have made presentations to three different forums of building society personnel. I have provisionally agreed to make further presentations subject to attaining my doctorate. At no stage has the BSA Trust requested a copy of the research, nor asked for any additional factors to be taken into consideration.

Following a series of correspondence with the gatekeeper we agreed that I would interview 11 of the 68 building society chief executives. These would be selected on the basis of their size, with three each drawn from the largest and smallest societies, and five from the medium sized societies (see Appendix C). Size was chosen as the key variable to help assess the veracity of functionalist interpretation of demutualisations. Once a shortlist was produced the gatekeeper approached the relevant chief executives and received permission for me to contact them.

Though it may have been anticipated that chief executives of building societies may be difficult to contact, I did not expect a similar challenge with regards to credit unions. Initially I worked with the Credit Union Development Agency (CUDA) who facilitated an introduction to a chairperson of an associational credit union. Once the interview was completed CUDA were unable to provide further assistance, consequently I made contact with another organisation with a CUDA function. As there were 641 credit



unions in Britain in 1999 I decided to concentrate on those within Lancashire (22 in total). This was due to financial constraints and the desire to operate efficiently. Working with the CUDA I followed the same practice as that adopted with the building society gatekeeper (see Appendix C). However, unlike the building society gatekeeper, the CUDA did not forewarn the credit unions of my approach, despite reassurances to the contrary. What exacerbated the situation was that the gatekeeper had a poor reputation among some of the potential interviewees, thus my work was tainted by association. The outcome of this process was that three credit unions either declined to participate or did not respond to my enquiries. Additionally another credit union stated that they were too busy to be interviewed but did grant me permission to attend their AGM. To ensure I interviewed the same number of credit union leaders as building society chief executives I made a supplementary shortlist of two credit unions in Greater Manchester.

Finally interviews were also sought with trade representatives and other interested parties. In total three representatives from trade associations concerned with mutuals and financial services. The non-mutual trade representative was interviewed as it was hoped his external perspective may provide a broader context of changes in the financial sector. An interview was also held with a former employee of the Register of Friendly Societies who acted as regulator of credit unions until recently. Due to the potential contentious nature of this individual's contribution, I have decided to withhold their identity and cite them only sparingly.

Apart from industry representatives interviews were also sought with member groups within building societies. Unfortunately only one of these agreed to be interviewed. No response was received from two pro-mutual groups or individuals associated with dissatisfied members. Additionally the Building Societies Members Association (BSMA) declined to be interviewed but did forward copies of recent newsletters. On ethical grounds the author declined an interview with another leading carpetbagger after they demanded that I undertake a series of statistical analyses of building society performance on their behalf.

### 6.1.5 The Interview Process

Once the shortlist of interviewees was agreed with the gatekeepers, a letter was sent to the potential interviewees explaining the purpose of the research and requesting their participation. Wherever possible the letter was followed a week later by a telephone call to book an interview. Unsurprisingly I spoke with personal assistants of all the building society chief executives and appointments were arranged, often with long lead time due to the busy diary of the respondents. The credit union leaders proved more problematic as many operated on a voluntary basis and did not have a telephone contact. Consequently when this arose I sent repeat letters to those credit unions. Eventually those without numbers contacted me to confirm their availability.

All the interviews of the building society chief executives occurred in their places of work, as this involved minimal disruption to their day and I believed was more likely to ensure a positive response. With the interview topic relevant to their employment I believed it was beneficial to meet them at work. Wherever possible this process was replicated for the credit unions. Unfortunately a number of the credit unions did not have an office location, which resulted in two interviews occurring at the respondent's home and one at a local café. Additionally one credit union respondent was unable to meet but did participate in a telephone interview.

With respect to the trade associations, interviewees were all initially approached informally at industry conferences and seminars. A letter of explanation was sent once outline agreement was reached and this was confirmed by telephone or e-mail. All of these interviews occurred at their place of work. The interview with the former regulator was arranged informally and a meeting took place at their new place of work. Arranging the interview with the leading carpetbagger involved many months of patiently building a rapport and establishing mutual trust. The individual was genuinely concerned that I may be a 'spy' for the building societies and wanted to check my credentials before agreeing to meet. This involved passing on details of my supervisor and a reference from the Research and Graduate College and to my knowledge no contact was made with these individuals. Finally, following an exchange of e-mails, an interview was arranged for a pub near to their home.

All except three interviews were one-on-one between the interviewer and the interviewee. The three exceptions were at a large employee credit union, which occurred while she worked with two colleagues in the room and two small community credit unions where I was joined on both occasions by the full board of directors. In all these interviews more than one respondent answered the questions.

On average the interviews took 50 minutes to complete, with the shortest taking 25 minutes and the longest about two hours. Before commencing, permission was sought to tape record the interview: 20 respondents agreed and the other eight declined. Where this occurred I made extensive notes during the interview. Most of those who were taped insisted that any comments they made were unattributable, consequently I have disguised the identity of all respondents. Needless to say, I have retained the original taped interviews.

Different schedules of questions were used for building society chief executives, credit union leaders, and trade association interviewees and copies of these can be found in appendix C.

### 6.1.6 Analysis of Interviews

Although considerable difficulties were experienced in achieving a sample I am confident that the eleven building society chief executives interviewed provided a fair representation of the remaining 68 societies. Subsequent to the interviews being completed, I have met other chief executives and senior officers and their comments, at least superficially, appeared to conform to those of the interviewees. With a much smaller percentage sample it is likely that greater errors are possible with the credit union leaders. However, as highlighted in 4.4.1 the movement is conventionally divided between idealists and instrumentalists, and I attempted to designate respondents accordingly. However, more predominant was a 'pragmatic idealistic' stance and I was concerned that this may be geographically specific to the sample. I was dissuaded of this in meetings elsewhere in the country with other credit unions activists. The other interviewees were not selected from a sample being representatives of trade associations or other organisations.

Though confident of the veracity of the data this does not extend to arguing that the sample can be classified as statistically valid, hence no mathematical analysis has been pursued. Once complete the interviews were transcribed by myself, first into Microsoft Office 2000 before being codified and analysed using NU\*DIST 4.0.

## 6.2 The Surveys

When the website observation was underway and the interviews were being arranged it became apparent that there was a deficit of information regarding non-involved members of mutuals. With the carpetbaggers claiming to represent the authentic 'voice' of 'ordinary' members it became desirable to evaluate this claim. Equally important I wanted to assess not just the commitment of members to mutuality but also their knowledge of the concept. As a result I decided to undertake two small exploratory surveys of members of financial mutuals. It was decided not to proceed with a large representative survey, as the purpose was to inform the other data collected.

### 6.2.1 Survey Design and Construction

Accessing the research field proved difficult. Due to the Data Protection Act building societies were unwilling to grant access to their member records, thus discounting any form of random sampling. Instead I was restricted to conducting interviews with members in the street outside specific building societies branches. This methodology poses representative challenges that will be discussed later. Unfortunately the credit unions adopted the same approach and an alternative strategy needed to be developed, especially as most do not have conventional branches. Similarly, the footfall into credit union branches or offices where they did exist was often miniscule, one received an average of 20 people per week, and so standing outside would have been impractical. Two credit unions offered to undertake the survey on my behalf and despite considerable methodological reservations I considered I had no option if I wanted to access members.

During the semi-structured interviews it became apparent that there may be subtle differences between the motivations of building society and credit union members. Therefore two separate questionnaires were designed. These had a degree overlap and

of the 36 questions asked in the building society survey, 17 were replicated in the credit union survey. (See Appendix D for copies of questionnaires used).

The questionnaires were designed in isolation by myself, and drew upon information from the other research data being collected and the theoretical literature. Unfortunately an investigation of the literature produced no empirical research on the attitudes of building society members. During the survey fieldwork, Waite published a review of all empirical information on building society members, concluding that:

*'The clear impression is gained that the emotional and attitudinal dimensions of mutuality have received little attention in a formal research context...The search of academic literature involved well in excess of 1000 journals written in over twenty-five languages and failed to find any research into the emotional and attitudinal aspects of consumer behaviour with respect to mutual financial services organisations....It can be concluded that there is little in the way of empirical, authoritative research upon which to base our understanding of mutuality in the context of the study.'* (2000:6)

For credit unions the situation was slightly better with Berthoud and Hinton (1989), Feloy and Payne (1999) and more recently a study of members of six Chicago credit unions (Jacob et al. 2002).

### 6.2.2 Theorising the Methodology

Since Mills' (1959) study, survey based research has been criticised for being too empiricist as facts are collected in absence of any theory. Though one important aspect of the survey was to secure demographic data, the limited nature of the sample effectively restricted the universality of this information. Instead answers to three questions have been sought. First, I wanted to know the extent of knowledge members had of mutuality, as this may inform their commitment to mutual institutions. Second, I was keen to assess the extent of any 'gap' between the views of members and management. While the semi-structured interviews could inform me of the latter, the survey appeared the most effective way of achieving the former. Finally, I wanted to address whether political affiliation and attitudes to privatisation affected members attitudes to mutuals and demutualisation.

Other criticisms of surveys listed by de Vaus (1991) included the inadequacy of causality between variables; the inability of surveys to provide meaningful understanding of social actions; their contextless nature; their assumption that human action is based on external forces and by implication ignore the role of human consciousness; and that some things are not measurable. Wherever possible the survey propositions rely on more than one question to establish “causality”, while the restricted sample prevents any claims of universality. Meaningfulness is partially achieved by triangulation with the other research methods, plus a number of questions have open answers allowing the interviewee to shape their own interpretation of the topic. The survey is designed to examine some of the influences that may affect social action rather than study the action itself. What the survey has not attempted to capture is the national ‘collective greed’ exemplified by the wave of conversions in 1997. Rather I wanted to understand how individual attitudes have been affected by events and circumstances during the following three years. Knowledge based questions were included to help inform the degree of the respondents consciousness. Finally, I have restricted questions to those factors which I believe could be usefully informed by quantitative research and used them in conjunction with other methodologies to develop a greater understanding.

### 6.2.3 Pilot Study

Questionnaire design occurred in consultation with staff and researchers in the Department of Sociology and the Institute of Social Research at the University of Salford. All discussions provided crucial insights and gradually over a period of six weeks the concepts, variables and ultimately questions were refined. To enhance the veracity of the findings I undertook a reliability and validity assessment of every question, the results of which are reproduced in appendix D.

Following this, three members of the employee credit union completed the credit union questionnaire. Although not scientific the selection was random, being the first three members that came into the credit union office on the 8 March 2000. I had the opportunity to have a brief discussion with each of the respondents who commented on layout, understanding and relevance of specific questions. Subsequently, a number of minor refinements were made before the questionnaires were despatched.

A slightly larger pilot was undertaken for the building society members' questionnaire with six respondents being interviewed. In both pilots I attempted to replicate the experiences that would occur for the full surveys, allowing the respondents in the Employee credit union pilot to complete the questionnaire alone, while I interviewed members of building societies myself when piloting that questionnaire. The latter activity took place in Salford in March 2000. Though a few comments were received from interviewees the main lessons were how I presented the questions and time taken to complete the questionnaire. Subsequently I shortened the total length of the questionnaire and made a number of questions simpler to read and understand.

#### 6.2.4 The Samples

To recap, the purpose of the survey was to provide an indicative guide to the views of members, rather than a representative empirical study. Moreover, time constraints would limit the extensiveness of the survey due to undertaking "on the street" research. Furthermore, the restricted nature of access resulted in differentiation in the sampling for the credit union and building society members. Therefore I decided to seek a relatively small sample of 200 members of financial mutuals, divided equally between building societies and credit unions.

#### 6.2.5 Sampling of Credit Union Survey

The two most common types of credit unions are employee or community based. Consequently members of each type were surveyed to assess whether the credit union form affected the demographics and attitudes of members. After discussions with a number of credit unions, an employee credit union, and an inner-city community based credit union agreed to participate.

In each case I visited the respective credit union and delivered 50 questionnaires for completion and a further ten in case of mistakes. At this meeting I instructed the staff that no assistance should be given to respondents and participation should be entirely voluntary. I also provided a short summary of the purpose of the research, my contact details, confirmation that identity would be protected and that the information would not be transferred to a third party. At the employee credit union the staff advised that

approximately 50 members would visit the office during an average week. We agreed on adopting a random sampling whereby they would ask every third member entering the office to complete the questionnaire. Based on the average number of visitors it was anticipated that the survey would take three weeks to complete, after which the questionnaires would be forwarded to me. At the meeting we also agreed that the unanswered questionnaires would be kept in the same location and distributed by a single member of staff. Completed forms would be placed in an envelope and sealed. Due to the nature of the sampling frame employed, no claims will be made regarding the representativeness of the sample, as only members who entered the credit union office during the survey period were included. The research occurred between the 5 – 26 April 2000 and I received the completed questionnaires on the 2<sup>nd</sup> May 2000.

Although the community credit union had a branch office adjacent to a shopping precinct and most members saved and repaid by cash, the expected footfall was only 20 members per week. To ensure sampling continuity we agreed to offer the questionnaire to every third member entering the branch but extended the research period to five weeks. Other processes employed were identical to those used at the employee credit union. The research occurred between the 5-10 May 2000 and I received the completed survey on the 29<sup>th</sup> May 2000.

Across the two credit unions a total of 78 responses were returned. Of those 55 came from the employee credit union who fulfilled the sample criteria but only 23 arrived from the community credit union. Furthermore they only returned the questionnaire following two requests explaining that members had been reluctant to complete the survey. No justification for this was offered. Clearly 23 respondents was not representative and any results should be treated with the appropriate level of caution.

### 6.2.6 Sampling for Building Society Survey

Building societies can be classified as national, regional or local with all of the demutualisations occurring within the first two groups. As the research is interested in members' views of this process the sample was drawn from these two segments, with one building society being selected from both the national and regional category. The regional society had many branches south of Manchester, one of which was selected for



the survey. This community was one of the most prosperous in the region and I wanted to discover whether mutuality meant anything in a middle-class community. Similarly, national building societies had endured criticism that they were too remote from ordinary members and therefore I selected a branch located in one of the most deprived parts of Britain.

Both of the building society branch managers granted me permission to stand outside their respective premises and ask members who were leaving the office to participate in the survey. I had to wear university identification at all times, explain to respondents that the research was not being undertaken on behalf of the society and present myself to the branch staff at the beginning of each day. These conditions were beneficial as they helped confirm my autonomy from the building society. In neither case did the society ask me to adjust the questionnaire, despite being given an advance copy.

In common with the credit union survey I wanted to interview 50 members from each society and wherever possible used a similar sampling methodology, although the requirement of conducting street interviews was clearly a departure from the process followed during the credit union research. The research for the regional society occurred between the 11-15 of August 2000. Having previously discussed the matter with staff it was apparent that the branch did not receive many visits, with lunchtimes being the busiest times. Therefore to achieve the projected sample size 17 interviews were conducted on Monday and Friday between 10 and 3pm and 16 on the Wednesday during the same time period. Sample selection was based on undertaking an interview at certain fixed time intervals with interviews being sought from the first person leaving the branch. If that person refused the procedure would be repeated until somebody agreed. However, the time of the next interview would remain fixed regardless of how long it took to secure an interview during the previous time segment. Fortunately only once did it take longer than the allotted time to secure an interview, whereupon I proceeded immediately to request an interview of the next person leaving the branch. Table 6.2 provides details of times interviews would be sought.

For the national society survey the same procedure was followed but it took longer to receive permission to undertake the survey (the manager had to check with head office), consequently the fieldwork was completed between the 4-9 December 2000. In both

locations the interviews passed without difficulty and achieving the required sample; refusal rates were remarkably low with only 13 individuals from the regional and 17 from the national society declining to participate.

**Table 6-2: Sample Selection Framework for Building Society Interviews**

<b>DAY</b>	<b>10-11am</b>	<b>11-12</b>	<b>12-1pm</b>	<b>1-2</b>	<b>2-3</b>
Monday & Friday	10:10, 10:30, 10:50	11:05, 11:20, 11:35, 11:50	12:05, 12:20, 12:35, 12:50	13:05, 13:20, 13:35, 13:50	14:10, 14:30, 14:50
Wednesday	10:10, 10:30, 10:50	11:10, 11:30, 11:50	12:05, 12:20, 12:35, 12:50	13:05, 13:20, 13:35, 13:50	14:10, 14:30, 14:50

### 6.2.7 Sampling difficulties of the surveys

As with any survey there are limits on the representativeness of the sample. In particular there were three areas of clear weakness in the sample selection for this survey. First, the restricted access in effect prevented any probability based work occurring. Instead I was forced to rely on those that visited branches during the times of the surveys. These raises a second difficulty that this selection omits anybody who did not visit the branch during this period, or members who conduct their business relationship remotely by telephone, internet or via automatic banking transfer payments. It is possible that this most computer literate group will have less affinity with the society, the branch and the staff and hence may be more amenable to demutualisation. Unfortunately this survey does not enable their voice to be heard. Similarly with an increasing number of standardised transactions occurring outside physical space, the survey suffers from reliance on members who may have experienced an intensively reciprocal relationship.

In modern banking a larger percentage of branch visits are to arrange new services, resolve specific problems, or seek advice, rather than have a daily interaction. Thus many of those surveyed will have left the branch having immediately experienced a personal interaction with the obvious risk that this will affect their response. Finally, particular problems surround the credit union surveys as parties other than the researcher were in control of the sample. I cannot attest to the veracity or the validity of the sample and have to trust the staff that they followed my instructions. Having analysed the results I am fairly confident that no tampering occurred and the completed

questionnaires all appear to have been written in different handwriting.

### 6.2.8 Analysis of the Survey

Completed questions were coded and analysed using SPSS version 10.0 for windows. To enable cross-tabulations between the different research locations all entries were made onto the same file. Due to the limitations with the representativeness of the sample no attempt has been made to measure the statistical strength of probabilities.

## 6.3 Cyber-Ethnography

As discussed in chapter four the main criticism of mutuality by members has arisen from various carpetbagging websites. To assist the interpretation of this phenomenon a study of their activity and dialogue was undertaken. Traditionally, ethnographic methods are associated with participant observation (Bell 1993), though Werner and Schoeofle (1987) argued it had 'limitless' possibilities. More recently the arrival of the internet has presented new interpretations of research methods, one of those is cyber-ethnography which is adopted in this thesis.

Ethnography enables the skilled researcher to study interactions between social actors in specific locations which remain beyond questionnaires or interviews. Through this the researcher can study what is actually occurring rather than how people perceive it (Bell 1993). Ethnographic research is not without risks, especially regarding bias as the researcher may become too attached to members of the research group, or may influence the research findings through their own interactions with the group. Complete removal of researcher subjectivity may be impossible as even data analysis after leaving the research field may be selective (Ely et al. 1991). Researchers therefore must work to minimise bias in both their activities and the process followed, in particular securing entrance, remaining in the field, and means of exit. In this research I had no previous contact with carpetbaggers nor did I have a credit union or building society account. Therefore I had no emotional attachment to the study group or vested interest in their success but during the research period I did develop a sense of loyalty towards a group with whom I shared few attitudes or values.

### 6.3.1 Theorising Cyber-ethnographic Methods

Due to its freedom from temporal and spatial restrictions Mann and Stewart (2000) recognised the importance of the internet/computer mediated communication (CMC) as a research tool. O'Connor and Madge (2001) stated that three types of CMC research methods had emerged: e-mail surveys, e-interviews (both synchronous by the authors and more prevalently asynchronous) and cyber-ethnography. Ward<sup>1</sup> (1999) held this was implemented in online chat-rooms, emailing lists, and bulletin board systems (BBS). The latter is a virtual notice board usually within a larger website. Often there are a series of bulletin boards with specific topic headings under which contributors exchange messages, information, just read other contributors correspondence, and conduct '*typed conversations*' (Pleace et al. 2000:2.1). This research includes the cyber-ethnography of three such bulletin boards.

Just as CMC is a relatively recent innovation, the 'e-methods' have yet to develop standardised methodological approaches and analysis; therefore they currently have more problems than robust answers. Regardless of this, cyber-ethnography does possess some important advantages. It enables the researcher to study groups which are geographically dispersed without incurring severe financial penalties. Similarly CMC removes chronological barriers between participants and the researcher. Without travel costs the researcher can indulge in extended periods of observation and return to the research site during the writing-up phase to clarify and check issues and interpretations. Consequently the researcher can adopt a more reflexive approach, returning to participants and presenting thoughts for discussion and assessment. This observation and interaction gives the researcher '*an idea of how CMC, with its ability to globalise and re-locate communication and community, changes behaviour and communication patterns*' (ward 1999:1.9). Another perceived benefit of the internet is that its unbounded and less normative culture permits a freer exchange of opinions between actors (Waern et al. undated), a finding partially confirmed by O'Connor and Madge (2001) in an empirical study of a pregnant mothers' bulletin board. My experience is that this is more superficial and temporary than promoters acknowledge. During the fieldwork a series of behavioural norms emerged, known as 'netiquette', which if departed from received swift rebukes from other users. What is also omitted is the

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<sup>1</sup> Hereafter the author's practice of not capitalising their family name i.e. ward (1999) is duplicated.

influence of physical world norms on the virtual space and how the extent of internet usage and experience may affect attitudes and shape norms. Often I found new internet users complaining to regular users about the personal nature of abuse. This hybridisation between the physical and virtual world is emphasised by Ward (1999) in her discussion of the concept of 'virtual communities'. Like Ward I found no evidence of a dichotomous relationship, rather a sense that the virtual both affects and is affected by the physical and vice-versa, and that this process appeared to be increasing.

In methodological terms cyber-ethnography may help ensure the voices of the shy, silent or excluded are heard (Chen and Hinton 1999). For the researcher, pure observation with almost no effect on the research group can be achieved. There are ethical concerns about 'lurking' but it does *provide distance and prevents the researcher* from 'infecting' the research area. To those researchers who chose to interact the absence of means to assess acceptable credentials on the internet results in less implicit trust based relationships. This can reduce the power inequality between the researcher and the researched, sometimes resulting in a dialogical approach whereby the researcher must explain and justify their existence and their work. The final benefit of cyber-ethnography is that the data is easier to collate being prepared by the research groups, with all information codified via bulletin board topic areas and available for instant duplication.

As with all ethnographic research, the findings cannot be classified as generalisable. This is especially true of cyber-ethnography where access is often restricted to those who are literate in the technology (Chen and Hinton 1999). Graham and Marvin (1996) linked internet usage to income and class, while Mann and Stewart (2000) found that users were predominately male, white and under 35. As the number of those online increases some of these correlations will weaken but it is unlikely that the internet will be representative of the whole population in the foreseeable future.

Being physically remote from the study group the researcher may have difficulty in identifying participants, a factor exacerbated by the identity play commonly practiced on the internet (Plant 1997). A researcher is thus attempting to disaggregate and analyse both the data and the personas of contributors, challenging the methodological efficacy of the results. A related concern is that the dialogical interactive exchanges and

hypertext links make it difficult to distinguish between the author and audience (Waern et al. undated). In this environment apportioning and accreditation can become opaque or even invalid. Interpretation of the internet poses the problem of re-writing texts already written, heightening the criticism of ethnography that researchers re-produce and thus construct a new version of reality (ward 1999). Reid (1996) fears this will result in a tendency to objectify the individuals who are hidden by the technology, with conversations treated not with care but as detached exchanges in ether. Reinforcing this is the absence of paralinguistic communication (Chen and Hinton 1999), although this is now being partially offset by 'emoticons' (O'Connor and Madge 2001), by which participations type their feelings (for example the icon :) represents happiness). Without these personal interactions ward (1999) is concerned that cyber-ethnographic researchers will impose their own normative framework on internet study areas, again replicating and exaggerating the problems of ethnography. For ward (1999) this can only be overcome through modifications to interpretative research whereby a researcher works outside their preconceived ideas through intensive reflexivity and allows the participants to develop a depiction of the on-line community. An immediate example of the risks of cyber-ethnography is the transposition of concepts of community. Attempts to circumscribe virtual communities ignore their ephemeral construction, the instrumentalism of most participants, and multi-membership of communities by an individual (Waern et al. undated, ward 1999).

More pragmatically, with implicit trust-based relationships difficult to construct, the researcher may be faced with challenges identifying and corresponding with gatekeepers. Often website owners remain as anonymous as the contributors, to whom they may have no stronger connection than the researcher. This crucial aspect of the methodological process has thus far been overlooked or ignored by cyber-ethnographic writers. Without a gatekeeper, formal processes of entering and exiting the research field become amorphous and elusive, potentially creating methodological anxiety within the researcher. Once within the field the researcher becomes acutely aware that they cannot steer participants to a desired topic without directly affect the research field, as any attempt is preserved on the bulletin board for future participants to discuss, and used to influence subsequent conversations and social actions. Even sampling and data selection become intensively problematic as there is no exhaustive list of internet users and the sheer plethora of information and hyperlinks can create information overload.

Finally, cyber-ethnography is plagued by unresolved ethical dilemmas, a fact confirmed by the more recent BSA guidelines on internet research:

*'Members should take special care when carrying out research via the internet. Ethical standards for internet research are not well developed as yet. Eliciting informed consent, negotiating access agreements, accessing the boundaries between the public and private, and ensuring the security of data transmissions are all problematic in internet research. Members who carry out research online should ensure that they are familiar with ongoing debates on the ethics of internet research, and might wish to consider erring on the side of caution in making judgements affecting the well-being of online research participants.'* (BSA, March 2002:41)

Though rather weak, these ethical guidelines for internet research are the first the BSA has published (ward 1999). Waern et al. (undated) accepted that though much of the data was *'open and easily available'* the usage rights were unclear (undated: 4). Sudweeks and Rafaeli considered bulletin boards were *'akin to the study of tombstone epitaphs, graffiti, or letters to the editor: Personal? – yes. Private? - no'* (1996:119), while Sharf believed that the *'researcher should make a concerted effort to contact directly the individual who has posted a message that he or she wishes to quote in order to seek consent'* (1999:254), a view endorsed by ward who posted messages to the bulletin boards which she subscribed to, therefore *'it became the participants responsibility to the read the message'* (1999:1.10). However, can this still apply when respondents are deliberately anonymous or when the subject matter is sensitive and any open disclosure by the researcher may result in their expulsion from the website? When following Alcohol Anonymous bulletin boards, Pleace et al. preferred to *'lurk'* because they believed the bulletin boards were a public forum and revealing their presence *'would result either in expulsion from the group or in a modification in normal behaviour, because individuals knew they were being 'watched', that would invalidate the study'* (2000:2.4). Although carpetbaggers would not be considered a sensitive matter, most contributors operated under a pseudonym for fear of being identified by watching building societies. Unsurprisingly this self-protection has received little methodological attention and I adopted a hybrid ward and Pleace et al approach (see 6.3.3.).

Despite being methodologically problematic, I still consider that cyber-ethnography is worthwhile providing researchers are cautious and accept and acknowledge its limitations. It can provide crucial insights into many research areas and in particular may affect our understanding of individuals and their identities, the relationship with communities, and the diffusion of the virtual and physical world. I endorse Gaiser's view that *'if the research question involves online social phenomenon, a potential strength of the method is to be researching in the location of interest'* (1997:136). However, it does suffer from an extreme form of the criticism faced by conventional ethnography regarding its validity, and further work needs to be undertaken into this hyper-criticality of cyber-ethnography and its effect on methods and ethics.

### 6.3.2 The Sample

In this study I focused on observing the bulletin boards available on three carpetbagging related websites. Carpetbagger.Com was the original carpetbagging website and home of Members for Conversion. On the website there were six bulletin boards dedicated to demutualisation issues. Subjects included: latest news, carpetbagging tips, mutuality v conversion, other mutuals, and miscellaneous. Contributions were entirely open and viewing was unrestricted until the software was updated and a new bulletin board for members of the Portman was introduced. Membership was carefully monitored by the webmaster, contributors had to send proof that they were a voting member of the Portman, and as a result I was unable to access this bulletin board. Following a dispute among participants of Carpetbagger.Com a similar website, entitled Moneybag.Com, was established in April 2000. The software employed was more advanced and the total number of bulletin boards increased to ten, of which two were concerned with building society demutualisation. In contrast to these the Save Our Building Society action group created an anti-carpetbagger site, SOBS.org.uk. This had one bulletin board which ran until the summer of 2000, when due to disruptive posts it was terminated. Observation of the websites began in January 1999 and ended in December 2000. During this period hyperlinks to all building societies and other related websites were explored and where appropriate these are cited in the findings.



### 6.3.3 The Observation Process

One of the main benefits of cyber-ethnography is the ease of access to the research field, merely logging on to the internet using a search-engine to locate websites containing any of the following words carpetbagger(s), building society(ies), mutuality, and demutualisation. From this I went through all the possible sites listed and entered bookmarks against those with relevant bulletin boards. Subsequently accessing sites consisted of clicking on the relevant bookmark. Once Moneybag.Com was created I had the additional task of registering a moniker (I selected Fourier) and entering a password provided by the website. This process was always undertaken in the postgraduate office via the university server. By accessing the websites through the university, the webmaster of the relevant site could quickly trace where I was registering from, thereby confirming my credibility.

Initially I spent about two months just reading postings (the internet name for contributors messages), learning how to interact with the websites and deciding how to collect the data. My first message was to inform users of my name, telling them I was researching contemporary mutuality and the impact of carpetbaggers and asking if any users would be interested in being interviewed. Unfortunately I received no responses either by e-mail or postings on the bulletin board. In common with Ward (1999) I took this silence as tacit acceptance and proceeded with the research. I followed these postings with direct e-mails to the webmasters of both Carpetbagger.Com and SOBS.org.uk informing them of the research.

Data was recorded by printing postings from contributors. Initially the software only permitted one posting per sheet of A4, but as the technology was updated entire conversation chains could be printed, (see Appendix E for examples). Apart from repetition and matters I considered irrelevant to this study (such as jokes and discussions about football matches) I printed every posting. Most postings were left on the board for many weeks, consequently I visited the sites once a week to download all messages. However, a few postings were deleted by the webmaster, usually because they were libellous. After six months of study I noticed that a number of conversations began to be repeated, especially those between new carpetbaggers seeking information on where to locate the 'best bag' and website regulars. At this stage I took the

conscious decision, due to an increasing plethora of information, to reduce the data sample to new subjects or postings which added to my understanding of carpetbaggers and the website.

During the research period I didn't comment on the discussions as I did not want to disturb the rhythm of the website. Unfortunately in August of 2000 the site was severely disrupted, allegedly by a research project at another university. This nearly resulted in the bulletin board being closed, demonstrating the fragility of these information points. All this activity reinforced the degree of paranoia among contributors, which I believe justified my decision to remain lurking. Participants were often aware of a wider audience of watchers and on occasions contributors were told by others to tone postings down or curtail conversation.

Access was easy to attain, but it was ethically problematic. Although I registered my interest when I first began monitoring the site, the existing literature passes no comment on whether I should re-register every time I logged on. After all the transience of the site meant new contributors were joining and leaving on an almost daily basis. Unless newcomers trawled through previous messages they would have no knowledge of my presence. I felt ethically becalmed once Moneybag.Com was established, as every time you logged on your moniker would appear on the bottom of the screen. Thus contributors were constantly aware of my presence, although again that assumes they had read my introductory posting.

Like entrance, the exit from the research field was remarkably easy, however, this ease of access encourages occasional revisiting. Often this was only to check a fact or clarify information but there is a risk of the researcher never fully disengaging from the fieldwork. This 'proximity' prevents academic distance occurring, something I experienced until I took a conscious decision to stop visiting for one year prior to discussing the data.

Using Gold's (1969) typology of participant observation I would describe my research as predominately 'complete observer' and occasionally 'observer-as-participant'. I would reject ward's (1999) argument that cyber-ethnography is not genuine unless interviews occur. Instead the flexibility of the internet partially purifies Gold's scales enabling the researcher to be completely detached without directly influencing the

social group.

In the previous section I discussed some of the perceived disadvantages of cyber-ethnography and the table below lists how I addressed these.

**Table 6-2: Addressing Difficulties of Cyber-ethnography**

Difficulty	Measures taken
Access	Interest was in this online group, while the survey provided some access to non-internet users
Identifying Participants	Due to pseudonyms being adopted I relied on the informal checking process used on the internet. If an individual's moniker is hijacked a swift complaint usually follows. This did occur on occasions and where possible I have only used quotes that can be considered 'robust'
Author and audience	It is possible for a bulletin board to be the work of a single individual but differences in writing styles and the self-monitoring explained above is the only reliable reassurance
Interpretation	I accept that the findings presented are my interpretation of reality, therefore wherever possible I use full and extensive quotations
Objectify individuals and conversations	I have attempted to keep conversation chains together during coding and where possible explained the context of quotes in the findings
Absence of paralinguistics	Where stated I have kept any emoticons
Concept of community	This prolonged study taught me the fragile and diffuse nature of internet communities, which I tried to incorporate in my findings
Status of researcher	Offset by supplying my supervisor's contact details for any carpetbagger who questioned my motivations
Gatekeeper	All webmasters were approached for support but I realised during the fieldwork that they often had no influence on contributors and that the search-engine was the only effective gatekeeper
Sampling and data selection	Beginning by collecting all information and then gradually reducing data as I refined my analysis
Ethics – informed consent	Like Sudweeks and Rafaeli (1996) I believe the bulletin boards are public, but I still informed participants that I was undertaking the research. However, I made no further input, did not seek to influence discussions, or seek covert access into private bulletin boards. Additionally, as all participants had a false identity I did not believe I was exposing them to any risk or abusing their trust

### 6.3.4 Data analysis

The data gathered was initially placed in date order and gradually coded into topic areas. Its main usage will be in chapter nine when it will be used to explore the attitudes of carpetbaggers and how technology is changing the relationship between mutuals and their members. It was the collection of this data that drew my attention to the potential of the partial post-modern explanation from paradox of mutuality.

## 6.4 Conclusion

Three methods are employed in this research: semi-structured interviews of mutual leaders; surveys of members; and cyber-ethnography of active members. The findings from which comprise the perspectives of the three social actors involved in the process, which are subsequently triangulated in chapter 10. Prior to the presentation of results in chapters 7-9 the methodologies employed have exposed important insights:

- 1) Attempts to distinguish credit union respondents between idealists and instrumentalists failed because the dichotomy ignores how social actors internalise and use both perspectives.
- 2) Despite its limitations the surveys of members provided empirical data on a social group that has received minimal sociological attention
- 3) Ethics on the internet can be effected by the sophistication of website software. Moreover, the absence of gatekeepers heightens academic anxiety. I believe these are important methodological concerns that have been overlooked by the literature.
- 4) The carpetbaggers engaged in considerable self-censorship and a Foucauldian interpretation of this would contribute to our understanding of how online communities negotiate their libertarianism.

## 7 Perceptions of Managers

This chapter explores the extent to which managers' attitudes and beliefs are an outcome of the inevitable compromise involving the alleged dichotomy between ideological purity and economic instrumentalism and how their conception of mutuality is constructed by the prevailing orthodoxy of capitalism. The chapter begins by reviewing how the managers described mutuality, before analysing their perspective on demutualisation and attitudes to the state. Finally managers' understanding of the contradictory nature of globalisation, producing both opportunities and threats for mutuals is discussed.

### 7.1 Understanding of Mutuality

All the interviewees were asked: "What do you understand by mutuality?" In general there was acknowledgment that the definition was elusive, abstract or obtuse. Three building societies believed it was difficult to provide a succinct description for members and one manager of a credit union was bemused by the term:

*"I was going to ask you what the hell does the word mean I hear it that many times. Go on you tell me, tell me, I haven't got a bloody clue." (CUCIN4)*

This sentiment was echoed by two building society chief executive officers (CEOs), one of whom believed that a multiplicity of understandings resulted in no clear perspective.

*"I suppose you got a different answer from everybody on this which probably demonstrates one of the huge weaknesses of this theme, because if you can't in a sentence describe a theme what the bloody hell use is it anyway." (BSR4)*

Another CEO accepted that even his staff would struggle to formulate an answer:

*"...in this organisation if you stop anybody on the stairs and say what's this about mutuality, they'll say mutuality great, we're mutual and so-on. If you ask them to define what mutuality is [interviewee holds out open palms and shrugs]. I think it is one of those things that can mean different things to different people." (BSN3)*

In a society such as Britain, arguably with a cultural bias towards pragmatism, the opaqueness of mutuality can result in a more deterministic interpretation that demands a more practical economic definition, exemplified by the following quote.

*“Mutuality to me is simply a corporate structure that enables me to deliver very good value to the membership, and better value than I’ll be able to deliver if I wasn’t a mutual.” (BSN3)*

This view was shared by five other building society CEOs and implicitly endorsed by the remainder. However, the most common response among all interviewees, with nine mentions, is that mutuality is for the benefit of members. This suggests a paternalistic approach to mutuality, based on service rather than cooperation. Interestingly, as the interviews developed, six of the credit unions and two of the building societies emphasised a more collectivist understanding of mutuality:

*“People with a common bond working for the benefit of the whole.” (CUEIN2)*

Other comments included phrases and words such as “common ownership”, “common commitment”, “loyalty” and “interdependence”. These responses indicate a non-commodified perspective of mutuality which some building societies have sought to minimise. For one CEO it was the romanticism and historical roots attached to the social definition of mutuality that was the greatest concern:

*“I think it’s like the brotherhood, it’s like the movement, it has roots I’m afraid that I mean never mind the political situation, it probably has left wing roots in people’s minds..... It has connotations of a certain sort of genre, certain sort of social history which it carries forward and therefore it confuses some people in a modern world. It is an old fashioned word in the modern world. So what we have to do is modernise the word or modernise the perception. So you won’t hear us talking about it unless we’re asked.... its not that we don’t particularly want to say it, we’re not hiding anything, it’s just that when we say it, it confuses people. They don’t quite know what it means and when they start to think about what it means they have this sort of old-fashioned view and old-fashioned goes with warm, cuddly, inefficient, not-quite-up to date, probably don’t know what they are doing, passbooks as opposed to proper accounts” (BSN2)*

Though an isolated voice his obsession with modernity reflects a sense of unease among the interviewees from the larger building societies over the usage of mutuality. This quote demonstrates how mutuality has been defined and labelled by the dominant

culture, and how social values have been made subservient to economics through the construction and appellations of negative connotations. By associating capitalism with modernity, mutuality, which is as much an outcome of early modernity as capitalism, can be presented as irrelevant, thus helping to reinforce the superiority, inevitability, and most potently 'natural' status of capitalism. As a result building society CEOs must either struggle to clearly articulate mutuality, deliberately avoid its usage because of its image, or reduce it to a meaningless platitude, to conform to an inappropriate capitalist lexicon, by equating it to ownership, such as the 2001 Standard Life advertisements. The most contemplative CEO was acutely aware of this danger and feared that ownership discussions resulted in commodified and legalistic interpretations of members and democratic rights. Once mutuals became engaged in this narrative, the route to demutualisation was open to directors, managers and members. Alternatively he descried mutuality as *"a sort of veil"* which hangs over the enterprise and the rules:

*"I think what it implies is an attitude of mind to the way you try and run the business because you've got to say well there are priorities, if our priorities are not quite as simplistic as they would be in a plc, where it is very simply: rate of return on capital and employees; maximum dividend to shareholders in the long run that's not our business. The mutual structure we have in an independent building society allows you to have a broader set of objectives, so it makes the job of directors more difficult because they have to decide what they want to do, how do they balance the respective interest of shareholders and borrowers. ... you've got the discretion to invest in things with very low rate of return if you so chose because you are not there to maximise profits."*  
(BSR5)

His analysis of mutuality as an attitudinal and behavioural concept develops some of the thematic components of mutuality outlined in chapter two. In particular his stress on longevity and stability:

*"So I think the building society and the life insurance and the friendly society structures are where they are because they relate to the underlying product sets; long run stability, long run credibility and those things infuse with the decisions our board take but I don't think it has particular meaning for the way and the things about which members vote, I think members are there and you're accountable to them."* (BSR5)

Other interviewees emphasised the importance of community, trust and reciprocity to mutuality. Although no questions directly referred to these key words, their frequency of usage across the interviews is displayed in the table below:

**Table 7-1: Number of interviews in which key words were mentioned**

Key Word	Building Society Interviewees	Credit Union Interviewees
Community	9	7
Trust	5	3
Longevity/ long-term	8	1
Reciprocity/ personal relations	11	9
Stability/caution/ low risk	9	5

From this it may appear that the building society interviewees’ perception of mutuality was closely correlated with my own interpretation. However the credit union interviewees referred extensively to the relationships with members and on reviewing the data they often equate reciprocity to trust. The only significant difference concerned longevity and this may be explained by the nature of the core product provided by each sector, with building societies offering mortgages, and credit unions small loans. When analysing the transcripts it is apparent that interviewees were concerned that broader cultural influences are affecting the delivery of the mutual elements.

**7.1.1 Community**

Though all those that mention community consider it important, credit unions interviewees appear to have a greater affinity for their community, while building societies believe it is desirable:

*“The credit union started during the last depression, four or five years ago. People were in a desperate position and we recruited most of members at that time. People were still deprived even in a nice area....” (CUAID1)*

*“But its always been managed out of [the hometown] so we see ourselves in a way as a two-faced business you might say. We’ve got our local face which is our local branch network very tight to [the hometown] with little branches in [nearby villages] and all the areas banks would have long since discontinued, we have an extended branch network there. If then you were out of our core heartland area we have offices in commercial centres ... so the nature of the business has adapted as we’ve grown so we’ve tried to keep the strong footprint in area.” (BSR5)*

Notwithstanding this attachment, locality has been greeted with some scepticism:

*“A lot of local societies have actually become local in the last couple of years [laughs] those that appeared local probably did take business from anywhere but once the carpetbagging became a problem they did impose local restrictions. So a lot of local*



*societies have suddenly become local.*" (BSR1)

Re-discovering a community is more problematic for the national societies, who feared that its absence may limit their effectiveness of any defence against carpetbaggers.

*"Even in our heartland here we have always had huge competition from [other national societies]. Even our home base wasn't exactly the home base you would find in some other societies which grew up and had a tremendous stranglehold on an area, we never actually had that, it does effect the member franchise if you like, it effects the – we don't have a community in that sense. I think I might regard that as a bit of a weakness – off the record I would never admit it"* (BSN1)

In contrast a larger society argued that it invested £700,000 in its local community annually and its continued presence was vital in a depressed area. This suggests that rather than a functional link between size and commitment to community; a more effective measure may be the extent of local embeddedness of the building society and its centrality to the micro-economy. Nor should this analysis be limited to building societies as two community credit unions admitted that their society was unknown in the wider community and the national credit union interviewed conceded that it had no profile or identifiable community.

### 7.1.2 Trust

From an external perspective it could be assumed that a voluntary credit union operating once a week cash collections from a community centre may have some difficulties in securing trust from members. However, most interviewees trust either did not warrant a mention or was considered extensive among members:

*"Collection points are very informal, there is a high level of trust. They even tell the tellers when they make a mistake in the customer's favour. If error occurs the other way people are very kind"* (CUCID4)

*"In all the years I've been involved in this credit union we didn't give out a dividend. Out of the membership that we have do you know how many people asked about that ... two ... I think that is truly wonderful"* (CUCIN4)

Nevertheless it is feasible that trust is a greater issue among non-credit union members. In contrast to credit unions, the building society interviewees were acutely aware of the commercial benefit of trustworthiness:

*“In personal finance you want a comfortable relationship, you want to feel it's going to be there and trustworthy. I've got an advert they won't let me use because it tries to sum up what's it all about. The advert says you should be safe, secure and slightly sexy and if you don't do the last part there you fall behind, but you still got to be safe and secure at the same time. So we've got to be a bit more exciting and up to date but we've got to be safe and secure.” (BSN3)*

Trust in the name building societies helps societies reach new customers through non-personal delivery channels, but even this is enhanced by a sense of informal trust:

*“In fact we have got a lot of evidence that our penetration on postal accounts is much stronger in areas where we have a branch. If you actually look geographically, and we recruited the customers off the page through the press over the years, the penetration is much stronger where we've had bricks and mortar.” (BSN1)*

From the largest to the smallest building societies informal trust remains important to their business case and there was no evidence from the interviews that trust became more formalised as the society grew. What seemed more influential was accessibility to informal trust. Overall, the evidence suggests that mutuals, regardless of their size, continue to be reliant on informal or reputation-based trust even when, like credit unions, they fail to recognise its importance.

### 7.1.3 Longevity

Similarly to trust, building societies use their long-term commitment to members and communities as a marketing tool. When a regional bank began to close branches in its heartland, a regional society launched an “aggressive” and clever advertising campaign of distributing free sticks of rock imprinted with the messages “We'll be here long after the rock has gone”. Three interviewees believed longevity was an important commercial advantage, however there was widespread concern that increasing short-termism would have a deleterious impact on building societies.

*“But that's a more difficult marketing story than here's the best rates in the market which is instant gratification and easy to go down the pub and say I'm getting x, then say I've made a very sensible decision and over the long term I will benefit. But I think as a mutual that is the position that you are having to deliver and it is something we have to get better at, is getting across that message.” (BSN1)*

Stimulating this culture shift to short-termism was the appearance of best buy tables in newspapers and the consequent rise in account turnover, known as ‘churn’

*“A classic question why aren’t you top of the best buy tables if you’re mutual give better deals. So you are able to point out well if you look at the people who are top its very seldom the same people for any length of time, so if you spend your time chopping from one to another you can always beat the system and unfortunately if you came fourth everyday you would never appear in the best buy tables. Whereas somebody who comes first and then 31<sup>st</sup> they will appear one week, drop off the next and maybe back in again. The impression you get sometime, again it is the short termism of them and particularly those tables, they’re a snap shot.” (BSN2)*

These quotes suggest that the culture of short-termism is created and sustained by the capitalist sector, which ensures continual market activity and creates a superficial image of dynamism. This is presented as a benefit to consumers as they are apparently offered an ever improving commodified market. To mutuals they are faced with the choice of competing on price with the potential degradation of informal trust with members, or maintaining ‘uneconomic’ services:

*“...because supporting uneconomic branches is not just drain on our management expenses it’s a direct attack on the viability of the society. To do it and pretend everything is ok is not to do our members any favours in the long run.” (BSR4)*

Moreover, the arrival of carpetbaggers, who argue that building societies should release ‘value’ to current members, poses a direct assault on longevity. Addressing this is challenging if a member only has limited savings because it would be many years before the equivalent benefit of a windfall would be accrued. Consequently carpetbaggers are challenging more than ‘wealthy’ building societies, they are attacking the concept of mutuality, and by implication any long-term based alternative to capitalism.

*“It really is not right for a very small but active minority to agitate and disrupt and potentially threaten the benefits to a very substantial majority of members, who are broadly satisfied enough with the state of play [and want] to allow the status quo to continue, it really isn’t up to them to decide because they don’t take that broader [view]. They don’t take the long-term view, they take the view that I’m in it for me and I want it now and hang everyone else. That is not how society has evolved over the years, that way anarchies lies and you can’t be that individualistic. You certainly can’t if you are part of an institution that is trying to serve a broad constituency.” (BSR3)*

Longevity is understood to be a mainstay of mutuality, yet opportunistic members with a short-term pecuniary agenda have questioned it. By detaching longevity from mutuality it is easier to argue for a commodified mutuality.

#### 7.1.4 Reciprocity

Both credit unions and building societies closely identified physical interaction between social actors with their delivery of mutuality. Many credit unions contrast the personal service they provide with the drift to more impersonal delivery offered by other financial institutions:

*“Whereas banking now has got so divorced so remote ... For people who haven't got much money and want to keep track of what they've got and also want to know how to handle and manage, I think you've got to have that personal touch and involvement and that's part of that mutuality thing and you've got to support your members and your volunteers. You can do a lot more for your members you can probably get arrangement with traders, special deals for instance and things like that, so it becomes not just a place where you can put money in and take money out” (CUCID2)*

The quote indicates that credit unions perceive reciprocity going beyond customer service, a view shared by at least one regional building society interviewee. Of more immediate concern for financial mutuals is the effect of growth on reciprocity. For many credit unions interviewees who are steeped in close personal relations engendered at community collection points, the transition to a branch based delivery generates a desire to retain the proximity of their organisation's formative years.

*“ I know when you expand you are coming out of that comfort zone and you're losing that one to one, but we hope we never lose that because when someone they can save and save and save but when they apply for a loan we bring them in, we ask them for relevant information, if the loan is a small loan and their savings are growing and they are looking for that larger loan which will put their payments up, we will ask for proof, we have actually done it this week because things have changed for us. .... changes have taken the policy where we had people and given them a loan because they were eligible for the loan now we have to assess”. (CUCIN4)*

This perspective was shared by most credit unions respondents and demonstrates the paucity of the instrumentalism and idealism dichotomy. Instead all interviewees internalised and negotiated the alleged division, most of which acted pragmatically for idealistic purpose:

*“The perception is in the discussions that we have had with our members and board members in particular is that both groups of people have different objectives, people who are in industrial situation and saving and borrowing perhaps having it deducted at source don't have the same commitment and ethos as what members from the community who come out in all weathers to deposit their savings and repay their loans. So yeah we've got to look at that but if its worked right we feel it can be beneficial to both sides in that sense essentially it will be a community based credit union serving both those who work and live here.” (CUCIN2)*

Reciprocity in building societies is exemplified by their more cautious lending practices than those of banks. For two national societies reciprocity has become more commercially overt with their decisions to offer the same rates for both new and existing members:

*“So we don't have this marketing strategy that most players in the market do, [and] are still adopting of giving better deals to new customers than they give to their existing ones. Now what that means is that by and large there is always somebody out there that is offering a better price than we can offer, because if we offer it we offer it to everybody, but they are only offering it to today's new customers and their intention is that in six months time those new customers will be old customers and the rate will be knocked back. ... Its behaviour that is just not in keeping with an organisation that is owned by its members.” (BSN1)*

As a result the societies rarely top the best buy tables and therefore are perceived as 'uncompetitive'. This provides further indication of how a cultural component of mutuality countervails the prevailing orthodoxy, while capitalism seeks to breach bonds between organisations and communities through the aggressive commodification of services. Thus reciprocity as practiced by building societies challenges the capitalist culture which is dependent on client apathy to secure profits. Elsewhere, the majority operate personal reciprocity through branches. Local and regional societies use their community embeddedness and branches to develop relationships with staff at levels. Three interviewees described the personal attachment members have to branch staff, often receiving Christmas presents and being invited to weddings. All of the building society interviewees argued that due to the complexities of arranging a mortgage there would always be a demand for a branch based service, and there was widespread scepticism that technology advances would end this. This runs counter to banks who are promoting cheaper technologically based delivery mechanisms. Two interviewees were concerned that the closure of bank branches would result in building societies

serving a residual, high cost low profit, market, while the banks offered increasingly price competitive products. By deliberately eschewing reciprocity, the banks may reduce costs sufficiently to undermine the fiscal stability of mutuals.

### 7.1.5 Caution and Stability

Security is the common purpose and original objective of all financial institutions, what makes financial mutuals different is that their capital is limited to the amount they can raise for members, resulting in evolutionary growth and cautious innovation. In the past this behaviour may have been interpreted as paternalism but four of the interviewees instead emphasised the necessity and benefit of maintaining adequate capital solvency ratios. One interviewee, when discussing the fate of mutual insurers, explained this:

*“The only argument that people have is that it does constrain your growth because growing a life insurance business rapidly within a mutual is difficult, because you are again in the same constraint about the solvency issues whether you’ve got sufficient capital in relation to your lines of business. But that again is part of stability, part of stability is not being able to grow immensely rapidly and then find you have grown at the wrong time, the wrong way and with the wrong customers and you then have to retrench, so I think that is just wrong and you do have greater stability within a mutual than a plc without any doubt at all” (BSR5)*

The interviewees from the three largest building societies argued that a cautious management style was not a disadvantage, providing societies concentrated on their core business:

*“...plugging away suits us as we spend all our time wondering what we were doing, not worrying about some deal or whatever.” (BSN2)*

These sentiments were shared by smaller building societies, three of whom believed that waiting for innovations to be proven by other organisations before implementing them was an acceptable management approach providing: *“the consistency that we pride ourselves on with our customers, we can win them to our modest changes we are making...” (BSR5).*

While three of the credit union interviewees echoed the need and benefit of stability for their organisation, two others suggested that the existence of their credit union helped bring stability to members’ financial lives:

*“... I think credit unions are great for giving people confidence and for, you know, helping people to get more control over their financial affairs or what have you and manage their lives.” (CUCID2)*

From the interviews it was apparent that the components of mutuality remain important and that building societies used these in various promotional narratives. Credit unions while not always articulating mutuality often appear immersed in its implementation. There was no evidence that the larger mutuals had ‘lost’ touch with mutuality, in fact the largest building societies were often the most innovative in finding new ways to express its benefits. Rather they may be more affected by the disruption to mutuality inflicted by the overweening dominance of capitalism and the attempt to commodify all elements of economic exchanges.

## **7.2 Relationships with Members**

The first myth dispelled by the interviewees was that CEOs of building societies were universally hostile to carpetbagging. All were asked whether carpetbaggers were a positive influence on building societies. Five respondents agreed, two were equivocal, although three were unsure, but they did not believe the activity was immoral or illegal, and only one held that it was wrong and their influence had been detrimental. Perhaps surprisingly interviewees from the largest societies, who had often had bruising encounters with carpetbaggers, were most likely to perceive them as a benign force.

*“It [carpetbagging] certainly opened our eyes to a number of issues and in a strange way strengthened us. We now know exactly why we are here, what we are doing, why we are doing it?” (BSN2)*

*“I have no argument about the fact that the carpetbagging movement was a rallying call to the sector to look to its business and I believe it hasn't been all bad. It has made the sector much more conscious about its obligations to its membership, to what it's doing the value it is delivering.” (BSN3)*

In support of this all the building society interviewees expressed a desire to further enhance member relations. In comparison credit union interviewees, while lamenting member participation, rarely mentioned a positive programme of membership

engagement. Table 7.2 details the number of interviewees per sector that discussed member relations

**Table 7-2:Discussions on key concepts surrounding member relations<sup>6</sup>**

Topic	No. of Building Society Interviewees	No. of Credit Union Interviewees
Education of members	6	2
Improving communication	7	3
Increasing participation	9	1
Member apathy	1	2
Member disinterest	4	3
Addressing apathy/disinterest	3	0
Members are the owners	7	0
Members help ensure accountability	5	1
Election turnouts	5	0
Member democracy is beneficial	7	0
Negative perception of member participation	1	1

The table indicates the salience of different aspects of member relations with building societies and credit unions. It is likely that the more recent and direct attack on the building societies has forced interviewees to address the role of members, while the proximity of credit unions to their members and the importance of other issues, particularly sustainability, de-prioritises this aspect of mutuality.

### 7.2.1 Member Apathy and Disinterest

In Barnes’ (1984) critique of building society democracy he argued that member apathy resulted in an absence of accountability for managers, a process which suited their interests. Furthermore a paternalistic management justified this inactivity as a demonstration of contentment. Three building society interviewees and one from the credit unions used this argument:

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<sup>6</sup> These results are not meant to represent the views of all interviewees, instead these are an analysis of how they perceived the role of members. When interviewees volunteered an opinion on one of the topics this was recorded.



*“So you know if the business is running well and you don't get huge turnouts, and you're not challenged that often, I don't think you need to take that as a criticism or a self-criticism. It just means people are relatively content with the way things are going ... ”(BSR5)*

In contrast, the larger societies avoided the argument and one credit union interviewee described it as *“a load of codswallop”* (CUCIN4). Other interviewees were genuinely concerned about member apathy.

*“Our biggest mutual supporters are in this region and this area and they're the people who are least likely to vote. We did some research and it told us that members were more likely to vote for the man-of-the-match on television than they were to vote in a building society election.”* (BSN3)

One credit union and one building society interviewee both expressed their dismay at a lack of member participation

*“I get a bit pissed off when you have an AGM.....you want the members to get a bit involved in and they can't be bothered to come, you know Coronation Street's on or bloody Eastenders is on, or something's on and they can't come, or can't do that because I'm making my tea at that time. But by Jesus they would run from here to Blackpool to get their bloody share withdrawal or loans and it wouldn't matter what time of day it was, you know.”* (CUCIN4)

Perhaps an explanation for this discrepancy from Barnes' findings is that building societies would like ordinary members to become more engaged to counteract the impact of the carpetbaggers.

*“The trouble is that if things are going OK then the membership don't get off their backsides. We need to whip up people's interest.”* (BSL1)

## 7.2.2 Communication and Education

Regardless of its motivation, a more prevalent and optimistic view was the desire to improve engagement from members, the first step of which was more effective communication:

*“There's a temptation for even the most enlightened management not to listen to their customers, because they think that's a process that takes far too long and may be inexact anyway. I think for a membership based organisation not to believe in democracy is almost a war crime.”* (BSR2)

*“So you have got to find a management that can simplify the issues and get it to a point where members can make decisions about key points. ...” (BSR5) -*

Interviewees accorded different benefits of improved communication including *“winning hearts and minds”* (BSN3), gaining market differentiation, and for two respondents even involving members in policymaking:

*“But there is definitely a responsibility on management to try to explain the nature of the business that’s being run, what’s being done, why its being done, and are there serious alternatives or whatever. I think the e-commerce debate might well be one of those and it’s a debate that we have to have with our members.”* (BSR2)

Interviewees indicated that member communication and education was being improved through newsletters, director profiles on election literature, and advertising in local press for non-executive directors. Though important it was emphasised that a personal interaction was more likely to be successful. For the smaller societies this was best delivered through local branches, but the CEOs of the larger societies, who acknowledged having minimal contact with members, had introduced a series of open forums:

*“We hold Talkback events.....for members where I will I go along, it doesn’t matter what level you are, people will come along and fire away and have a conversation .... Also the fact that we go and do it as directors, and I think people are appreciative that we put ourselves on the line and again that is unique. I don’t think anybody else does it ....”* (BSN2)

Three interviewees, whilst accepting the enhancements in communication, argued that the education of members was best achieved through actions of societies. The most prominent example of this was the national building society-led campaign against charges for ATM withdrawals

*“I think it is a very big issue for us across the board to get across the message: (a) about the value; and (b) our behaviour towards customers in that we have been through all our behaviour so that it is in the members interest. If it isn’t in the members’ interest then why are we doing it? If you go through all your policies like that, you do actually knock out a lot of things that are making a lot of money, but the members didn’t necessarily realise we were making a lot of money so other people get away with charging them, and we are just seeing it now with ATMs which is an interesting case in point and that’s been an excellent opportunity for us to make a point about an issue that*

*really underlines where we are coming from overall. Because we've been jumping up and down saying they shouldn't be doing this and we've got a petition out, we've got over 60,000 people signed it now which is good news. But most importantly at every branch counter every time somebody rings us up our members are getting the message Ah [they're] doing something in our interest. It really is underpinning what we are saying in terms of how we look after our members and the difference between a mutual and a non-mutual."* (BSN1)

The employee based credit unions also felt they needed to improve their communications with members. This issue was not raised by the community credit unions, but an industry interviewee was concerned that information may be held by a small number of volunteers and not disseminated to the whole membership. The concern expressed by most respondents and the attempts to engage members demonstrate that they understand the crucial nature of education. Though this was not mentioned overtly the interviewees implied that the future of mutuals was dependent on the commitment of members.

### 7.2.3 Ownership and Democracy

This reawakening of interest in the role of members has coincided with the assertion of membership rights displayed by the carpetbaggers. What remains unknown is whether these new initiatives are merely a sop or a genuine change in strategy and attitudes by senior managers. Central to the debate is the vexatious question of ownership and the nature of mutual democracy. According to one interviewee, many within the sector *"want to move away from the concept of ownership because it is confusing as the debate is always discussed in terms of personal monetary advantage."* (TA2). Seven societies saw members as owners but this disguises a sense of unease about the implications of this status:

*"Well the interesting question is do they own the building society, that is one of the great questions of the age. I think we are in the camp that we think they do but that's not universally accepted elsewhere....Even those [building societies] who accept they [members] might own it legally don't accept they own it emotionally, morally or whatever."* (BSN3)

Four respondents adopted the term "beneficial trustee" to describe the ownership rights of members, although one believed this imposed too great a burden on members. Alternatively, one argued that members have rights and responsibilities, which include

the right to vote for directors and the responsibility to continue to operate the business as an “*independent mutual*”. What all were united upon was the belief that the introduction of monetary gain subverted the democratic process.

*“I think it [democracy] can be a great help as long as its not abused. If people are merely voting for money then this is slipping away from democracy. If people are voting to change our status without a monetary reward we would accept it.”* (BSR1)

One interviewee compared mutual status to the position of the National Trust:

*“Members of the National Trust have all the benefits of membership and free entry, but you couldn't just have a special general meeting to sell off the Lake District. People just don't believe that they have that power to do that. I think our members are in much the same situation.”* (BSR3)

From the interviews it appears that building societies have no objection to democratic participation, but they believe ownership has been commodified to accumulate private wealth. Similarly, arguments that managers are autocrats and have no interest in democracy were unsubstantiated. Not only did seven respondents describe democracy as beneficial, they supported this claim by trumpeting their efforts to increase electoral turnouts in director election. Many of these, which are invariably uncontested, now receive turnouts in excess of 20%, with societies phoning members and reminding them to vote and more recently making a contribution to a charity for every vote cast.

They unanimously rejected claims that they were unaccountable and argued that the most effective form of accountability was by the media and regulatory authorities which pressurise under-performing societies; and mutuals are unique because they are accountable to members who are simultaneously owner and customers who can either “*vote with their feet*” (BG CBS) or vote directors out of office.

*“When you talk to one of the directors here, we think, we feel phenomenally accountable. I don't think the chief executive of a bank has to stand up in front of his customers, or her customers and be re-elected every three years in order to stay in office. What you have to do is to go and chat up some investors and if a few major shareholders are happy you are going to stay there ... so I think our accountability is ... to the right people. It is the very people who are shouting about bank charges, cash machine charges, we are accountable to those [people] we can't afford to hit them in the face and say sorry I've got to make lots of money.”* (BSN2)

The interviewees were keen to highlight this difference between the attitudes of mutuals

and banks, although off-the-record a number did express grave misgivings about the expulsion of members by the Portman Building Society. Nevertheless, two felt that building societies were being asked to attain a higher threshold than that imposed on banks.

*“We treat customers [sic – evidence of assimilation of capitalist lexicon] as people we have to talk to and the fact that they vote for us means I have to do my bit. ... If you are a plc with six main investors, it’s a lot easier, you just talk to those six people, you don’t have to talk to six members or more.” (BSN2)*

This set of data suggests that though the motivations for re-engaging with members were a response to the carpetbaggers, building societies are attempting to construct new relationships with members. However, the non-pecuniary ownership of mutuals has been subverted by the capitalist concept of ownership, which has resulted in the commodification of democracy. This situation is exacerbated by the social constraints on the democratic practice of building societies, entailing a higher, and probably, impossible degree of objectivity. In this way capitalism both undermines the non-financial relationship between members and the mutual and reconstitutes the definition of mutuality into its own likeness.

### **7.3 Managing the Mutual**

Central to functionalist accounts for the decline of mutuals is the belief in a detachment between members and management, a process that begins with the professionalisation of staff who gradually subvert the organisation to their own interest. To the Neo-Marxist interpretation this argument belies the reality of demutualisation. Though a separation of interests may occur this is caused by the impediments of operating a mutual in a capitalist environment and the middle-class patriarchal usurpation of management, a managerial approach incompatible with mutuality. To assess these arguments it was first necessary to identify when the detachment begins and how it manifests itself. Consequently we have drawn from the testimony of the credit union interviewees as all appeared to be undergoing a shift from purely voluntary organisations to semi-professional institutions.

### 7.3.1 Becoming more Professional

Six of the credit union interviewees were full-time members of staff, either as development workers or office managers, but there were no discernable differences in opinion between them and the volunteers interviewed. All wanted to expand their credit unions and believed this could only be achieved if they employed more staff and adopted more professional working practices. With the exception of a single case this seemed a reaction to the difficulties of recruiting and maintaining the enthusiasm of volunteers:

*"The danger is that people will lose heart and we'd have a struggle to keep hold of the rest of the volunteers. At the AGM there was only one new applicant to be a director and he was a volunteer before so not exactly knocking at the door wanting to be volunteers or take on responsibilities."* (CUCIN1)

Additionally four argued that as a financial institutional credit unions involved considerable responsibility and became more complex during development. Therefore, finding appropriately skilled volunteers was difficult:

*"You have to get the right people in charge. You need more than a calculator to run a credit union."* (CUAID1)

Instead there was awareness that credit unions needed to become more professional and move away from the purely voluntary ethos:

*"I think there is a much healthy regime at the moment, there is much healthy atmosphere around credit unions now, much more realistic, much more honest ... its much more target focused and business focused. Its very clear that credit unions being seen as businesses have won the day. I've letters saying they weren't businesses they were charities, of course they weren't charities, ... but people have it in their head that it is that kind of charitable endeavour."* (CUCIN3)

However, this desire for professionalism was accompanied by unease among six interviewees, that expansion may result in lessening the bonds with the community

Interviewer: *"Is there a danger of moving to bigger less community oriented credit unions?"*

Respondent: *" Too far I think yes. For us I think we do need to offer more services ..... As I was saying if we try to become too big and too successful and too sophisticated we cut out that local involvement, then we do lose ownership."* (CUCID2)

From the interviews it was unclear whether credit unions were becoming detached from their members, although a number feared they might be. Though all accepted the need to become more professional, one expressed scepticism regarding the enthusiasm for increasing the range of services:

*"There has been no demand whatsoever to my knowledge and I think I have the ear to the ground as far as our credit union is concerned in anybody wanting that kind of facility and service."* (CUCIN2)

If this interpretation were correct it would suggest that the interests of some credit union staff and members are being stretched. To assist this analysis the next chapter asks members what services they would like to receive. If this proposition is confirmed it would suggest that a breach between members and managers can occur very early in the gestation of the mutual, and is partially influenced by response of managers to the disinterest of members.

### 7.3.2 Paternalism in Mutuals

Building societies began the shift to professional organisations in the mid-19<sup>th</sup> century with establishment of permanent societies. The historical account of their development in chapters 3 and 4 suggests that patriarchy and the import of capitalist managers were responsible for the deterioration of relationships between members and managers.

To assess the veracity of this explanation all the building society interviewees were asked whether they thought building societies were paternalistic institutions, nine of which agreed with this statement. A typical answer was:

*"If you look back at old yearbooks up to the Second World War and probably just after you got a real sense that the management of the societies were very clear about their social obligations, that was a very strong driving force."* (BSL2)

Two interviewees who had come into the sector from banking argued that all financial institutions were paternalistic. This argument overlooks the difference in ownership between the sectors. Paternalism would be more invidious in a mutual where

accountability was to members, who were invariably people of a lower social class than the managers. Moreover, another interviewee, who had also worked in banking stated that banks began to address paternalism earlier as *“in practice because all the governing seats in the movement were held by dinosaurs, nice chaps, but dinosaur they threw away the structural advantages of shorter lines of communication. And boards 20 years ago were composed in the main...of stuff-shirts or nice chaps who could be relied upon not to do other than say ra-ra from time to time, and rubber stamp conservative decisions, within reasonable parameters, who didn't disturb the ships very often.”* (BSR4). It could be argued that the interviewees adopted this historical interpretation of building societies because it suited their personal agenda as agents of change, but three of the respondents admitted being paternalistic, justifying paternalism in terms of the necessity of building society managers to behave more compassionately than their banking sector brethren

Interviewer: *“How would you describe the culture and managerial structure of the [regional] Building Society?”*

Respondent: *“I would suggest that it is, that we would see ourselves as a traditional, almost paternalistic organisation. Both from the members point of view and our staff point of view”*

Interviewer: *“You readily admit that its paternalistic.”*

Respondent: *“Yes I don't see anything terribly wrong with that.”* (BSR1)

Interestingly all three of the avowed paternalists represented medium sized societies, two of which were less committed to democracy and member participation than the other interviewees. If the functionalist detachment thesis is to be sustained it has to explain why the larger national societies, who conceded being more remote from members, have demonstrated a greater desire to engage members and transform their organisations into less patriarchal institutions. Instead the evidence suggests that paternalism has a closer correlation to minimal member participation than the size of the mutual.

### 7.3.3 Import of Capitalist Managers

Another explanation for the conversions of mutuals was the loss of a mutual culture caused by the employment of managers with no previous knowledge of the sector. It is assumed that this culminated in the 1980s when building societies began to ape the behaviour of banks, an opinion shared by five of our interviewees.



*“For many building societies it went wrong in the seventies and eighties. We forgot what we were set up for and just looked at the bottom line. The societies that started this off were those led by ex-plc men. They ran with obsolete products and maximised profits.” (BSL1)*

Originally brought in to address specific skills shortages, such as accountancy and compliance after the collapse of Grays Building Society, according to three respondents many of these new managers struggled to understand mutuality:

*“There is nothing wrong with that as a technical training but you have equally got to be clear about the values you are bringing with that, so you need the skills but also got to select not just on those but on do they share the values and I think for a long time that just didn’t happen and people just recruited on skills and not on values and that’s where we got to, with a lot people in saying hey this is a terrific business you can rape this business really easily, lets go and make ourselves rich and some people have done that.” (BSR5)*

As a result many compared societies with joint stockholder companies and changed working practices, treatment of members, and ultimately made more mutuality inclined staff redundant:

*“I think the mistake dare I say it Mr Rodriguez [CEO of Bradford and Bingley] made from all I hear and understand, is that he threw out the baby with the bathwater, he made all these wholesale changes. Now in our middle management layer we have encapsulated there the official rememberers [sic] of the society. These are who know our business intimately who understand what has happened and so on. We have tried in my philosophy in both senior management and at that level, is to try to integrate the best of the old with the best of the new” (BSN3)*

As this new management became ensconced they began to get restless at the slow growth inherent in the sector. They sought diversification into areas such as estate agents but continued to believe the constraints placed on the sector frustrated their ambitions, a view shared by three of our interviewees

Interviewer: *“Why did building society convert?”*

Respondent: *“Mostly it was the ego of the people involved, being a bank gives the chief executive a higher profile and more money.” (BSR2)*

For another interviewee the problem for the building society incomers was that building societies were not a ‘sexy’ enough industry:

*"It was led by boards of directors because they thought being a board of a plc was (a) much sexier and much more exciting than being a boring old building society and (b) we can make ourselves very rich by doing it and most of them have and I think it has no more to do with it than that."* (BSN3)

Significantly, all eleven interviewees thought personal aggrandisement could explain most, if not all the demutualisations:

*"I think cynically the prime driver was greed of the directors and the board of those institutions and I think that has been the biggest single difference, they got very rich."* (BSR5)

Though greed could explain specific conversions, two interviewees did not assume there was a connection between the import of managers from the private sector and subsequent demutualisations. One argued that other managers had come from the private sector and not converted their societies:

*"I don't think you can lay the blame at the import of harder headed corporate businessmen than prevailed previously, because I was one of those I came from a banking background on invitation rather they saw it as an easy life in a cosy sector that needed changing."* (BSR3)

Rather the attitudes of the new managers and the subsequent conversions were a response to cultural shifts in wider society, movements which in his opinion were continuing to influence building societies today:

*"So a variety of things that came together that meant there was more profit maximisation in that particular period than there had been in previous periods. The assumption people make is that if there hadn't been a wave of conversions that behaviour would have continued. I suspect that that wouldn't have been the case, I suspect it wouldn't have taken longer to behaviour to change, but I think the consumerist trends and shift in political thinking would have fed its way through into a number of societies anyway, whether or not there had been a wave of conversions.... I also think there was a social thing in the eighties where the whole environment was very much every man for himself, which was less of a mutual ethos."* (BSN1)

This viewpoint echoed comments elsewhere by three other interviewees who believed the demutualisations should be seen in context of the Thatcherite culture:

*“And perhaps that was simply part of the Thatcher era...I think we probably all got a bit carried away with the glamour of all that” (BSR2)*

In summary it would seem the individual managers did bring into mutuals a more capitalistic attitude, but it is possible that they were the embodiment of broader social forces, namely Thatcherism. In particular the decline of paternalism exposed a contradiction between the role of members and management. For a generation this was ignored as building societies invariably duplicated the behaviour of the more socially aware banks. Only as the paucity of this approach has been realised and removed, has the relationship between management and members come under scrutiny and attempts made to address it. Based on the interviewees, the functionalist explanation is too simplistic since it ignores the social and cultural influences on the changing relationships and cannot explain how the largest societies are working harder to communicate mutuality than most smaller building societies and credit unions, both of whom are supposed to be closer to their members. However, it is possible that larger societies' efforts may be in vain, with the communication proving to be ineffective, with external factors, specifically capitalism and the state, having a greater effect on mutuality.

## **7.4 Impact of Capitalism**

In 7.1 it was shown how capitalism affects and distorts elements of mutuality, defining both the mutuals and permissible behaviour. In recent years the dominant discourse within the financial sector has linked the necessity of scale and the employment of high technology. Essentially the argument was that the advances in technology required huge investments and these could only be made by organisations with sufficient capacity to operate on a global scale. Building societies with their national, regional and local markets are therefore perceived as too small to survive. Moreover, the gradual erosion of building societies creates an impression of a sector in decline, a view endorsed by three interviewees:

*“If you look at and see a decreasing number from 71 to 68, to what, and I think that does not encourage you to get up in the morning with a springing your step, it doesn't help. I think you have to find ways to insulating yourself from that and finding out what*

*you can do, if you can't stop it.”(BSR5)*

The reaction of other interviewees to the size debate was an acceptance of the risk combined with a belief that they can be small enough to survive:

*“I think that there is a polarisation that is accelerating between big and small. At one end of the scale whether you are a mutual or not there is the global player, universal institution trying to be all things to all men, where you can seek to drive out economies of scale purely out of your bigness and that requires certain efficiency. At the other end there is the niche that knows its local market, is close to its members, is nimble and is equally efficient, that's the choice. Those institutions that are in the middle ground are potentially too big to be small and too small to be big and have the worst of all worlds.” (BSR3)*

Alternatively the larger societies while acknowledging the difficulty of competing dismissed the claims of economies of scale:

*“There has been no history of economies of scale, that's the other curious thing. ... if you look over the last 15 years at which institutions have been the most cost effective they haven't been the largest institutions, they have tended to be the medium sized. So there seems to be the case that you have to be a certain size to have the advantages of the economies that do exist but over a certain size and the complexities of running the operation mean you run into dis-economies of scale at some point.” (BSN1)*

The challenge for mutuals is that any emphasis by the market on rapid acquisition and merger-led growth inevitably portrays them as ineffectual because of their reliance on organic capital growth. Capitalism's desire for activity conflicts and affects attitudes to mutuals' objective of stability.

Equally the attention on technology based solutions provides another opportunity for capitalism to be seen as dynamic, while mutuals can be perceived as complacent and parochial. The interviewees rejected this dichotomy arguing that they were investing in new technology, or that as local societies members had not expressed a demand for these services. Three interviewees dismissed the correlation between scale and technology and one believed that speculative investments in technology was incompatible with mutuality:

*“Well the reason we haven't gone for an Egg competitor is actually quite simple because ... if we had gone out on the internet with a loss-leading savings product then*

*it's the rest of our members that are paying for, you just can't justify that. We are basically in an impossible position; you either go on with a lower priced product than everyone else and people say oh look building societies can't compete with Egg, or you go on with a price that competes and rob all your existing members." (BSN1)*

The current capitalist fixation with size and new technology presents mutuals with fundamental questions which confront their historical *raison d'être*. For in pursuing the demands of the dominant culture they risk losing their mutual relations with members. Alternatively failure to respond can be presented as managerial incompetence.

Mutuals are also hampered by the language of business which forces them to adopt capitalist accounting standards. These are designed from the perspective of shareholder investors and concentrate on issues of profit and income maximisation.

*"One of the criticisms always made is that building societies are inefficient but the cost/income ratio used in banking only works if you are trying to maximise income. The system is designed for profit maximization. Using this model the more an institution exploits their customers the more efficient they become. ... Part of the problem is that the dividend is not seen as a cost on the plc balance sheet. Instead it seen as what is distributed after the surplus, below the bottom line. Brian Pitman does not see a dividend as a cost but building societies have to class labour, property and capital as capital expenditure but dividends are not seen as a cost". (TA2)*

Not only do building societies have to write annual reports using 'capitalist linguistic infrastructure', but their costs have to be presented differently, both in terms of dividend and large losses.

*"If you actually look how plcs behave then what the discipline forces them to do is to watch shorter-term horizons and also what you tend to see periodically is an absolutely shocking year with a big loss and everything including the kitchen sink being thrown in the loss and then that's forgotten and another pattern of nice steady growth in profits. We don't actually have the luxury of doing that because if you make a loss as a building society the regulator makes you merge with somebody." (BSN1)*

So prevalent are capitalist regulations of building societies that even membership is forbidden

*"We have a member services department we don't call it customer services. I was a bit fed up with the new style of accounts because we have to talk of customers, loans to customers – under regulation. I thought that was bad, just because the banks don't have members." (BSR3)*

### 7.4.1 Defining the Mutual

Not content with imposing inappropriate accounting regimes on mutuals, the capitalist culture has defined mutuality for mutuals. In practical terms this is demonstrated through the marginalisation of mutuals:

*“The [credit union] image as the poor mans bank is inevitable in this country, banks are very strong, we have a bank culture” (CUCID4)*

Similarly, building societies have been forced to justify staff pay and retain unprofitable branches. Although the interviewees were not opposed to accountability regarding these issues they did display a modicum of frustration that standards imposed on themselves were higher than those on banks. Furthermore, these social constraints may prevent mutuals from competing effectively.

*“One of the dangers of a mutual is that it tries to run it with the people actually running it not getting paid either and with the best will in the world you are going to get some nice people maybe but not necessarily the best people who are good at running things. Because the people who are good at running things will want to get paid for doing that, its their profession. So we have had to rationalise the payments, we are going to pay people very well but we are going to pay to actually deliver to the members rather than pay them to make money out of people.” (BSN2)*

This process results in building societies becoming marginalised and being described as inefficient or labelled as community services, while the banks are unfettered to close branches in deprived areas, to pay management extraordinary salaries, and to target the most profitable accounts with no responsibility to improve access. All of this occurs because capitalism dominates and shapes everyday discourse forcing mutuals to use this language if they are to be understood, while the images of building societies and credit union are carefully controlled and monitored by the state and media.

*“Building society has the same problem. We have a little bit of the problem with the word there as well ... But they have in some ways some other connotations, but we obviously do use those in trying to point out why we are different. But again you see if you look at our business, travel insurance, equity ISAs etc and so-forth, building societies aren't thought of as doing those products. One of the problems we have is that building society does mortgage and savings doesn't it, yet we have the best current account out there.” (BSN2)*

*“The very name credit unions is a bad name. People think it's some sort of union, like*

*a workers union or a trade union or something like that. We can't use the word bank unfortunately because community bank would be a much better use of words. So I think that it's an off-putting word.*" (CUCIN1)

## 7.5 Impact of the State

Capitalism's control of mutuals is exercised through the state, by regulation and the actions of state agencies, both of which are affected by prevailing cultural values:

*"The key moment was the arrival of the Thatcher government, which believed in the free market and had little time for quasi-socialist alternatives. She did not understand the philosophy of building societies and was not attached to their survival. All she saw was that they had prevented many people from buying their houses due to mortgage rationing in the post-war period."* (TA1)

Another respondent felt that the labour market liberalisation policies pursued by Thatcher potentially mitigated against mortgages and as result undermined long-term relationships with members.

*"I'm not sure government answered the dilemma with a more flexible labour force going forward how do you underwrite a mortgage that requires a 25-year commitment. Then its by the way despite this difficulty we'll withdraw progressively from the social infrastructure that's there to support mortgages. We'll take away interest payment when you're are unemployed, we'll largely take it away and leave it to you guys with mortgage payment protection insurance where you are trying to sell a product to people, which is a valuable product but most people that are buying houses either can't afford to think they are going to be made unemployed or don't want to so the take up on those is 17%."* (BSR5)

Working within this alien and sometimes hostile environment, mutuals had to operate within restrictive legislation. Lacking influence, governments could afford to be tardy with mutual legislation. Four interviewees believed it was the frustration at this situation that resulted in Abbey National's decision to convert.

*"I think if we go right back to the early eighties when one or two of the larger societies were looking for new powers and it was fairly clear then that those new powers, that if they were to be granted, they were going to be granted too little too late and the Abbey National just got fed up with it and did its own thing."* (BSR2)

In contrast two interviewees believed that Abbey National had wanted to convert and

used regulatory difficulties as an excuse. Regardless of the precise motivation the regulatory framework created difficulties for ambitious and expansionist societies. Moreover, the construction of the 1986 Act encouraged regional societies to change status as it enshrined a five-year protection from hostile takeover, an opportunity that resulted in at least one conversion.

*"I think in the Northern Rock case, I think there was greater certainty for five years post demutualisation that the management would continue to run the business rather than never ending speculation about whether the Royal Bank of Scotland or NatWest was going to make a bid."* (BSR3)

Another interviewee was annoyed that their society's carefully designed defence against carpetbaggers was destroyed by politicians' inability to understand the functioning of mutuals and the difference between share and deposit accounts. Furthermore, suspicion of politicians' motives were heightened by their reluctance to introduce anti-carpetbagging legislation:

*"For some reason the government which claim to support mutuals seem very reluctant to do anything to safeguard the status of mutuals, of the model, of the building society model. I think that's a problem, a real problem."* (BSL2)

Frustrations with legislative impediments were also expressed by credit unions:

*"What wants changing is the restrictions, we want less restrictions on what we do whilst accepting that we are handling other peoples money therefore we have to be accountable and obviously the procedure and the records in place and be supervised in that sense."* (CUCIN2)

Criticism of the regulation should not be mistaken as criticism of the regulatory staff. In total eight of the interviewees (two from building societies and six from credit unions) felt they had a good relationship with the regulators.

Interviewer: *"Did you have problems registering and what's your view of the registrar?"*

Respondent: *"No. She was very thorough, very friendly, very nice but she's distant in London and unless we do anything seriously wrong we are not likely to see her again....No the Registrar fine there's a need for regulation and there needs to be accountability and she was doing her job. She was very nice, we were all scared about the interview but she was very good."* (CUCIN1)



The contrast between the relationship with regulators and the imposition of the regulation was most apparent in one building society's registration process:

*"So you could actually begin a building society in 1980 with £5000, ten people providing £500 each. The society was actually registered on the last day before that was increased to £50,000 and we always wondered if that change in regulation was brought in quickly to try and head us off. Having said that the Registrar of Friendly Societies was very helpful and actually met our people at the station in order to take delivery of the forms and the money." (BSL2)*

This control of mutuals was for one interviewee connected to attempts by the regulators to inculcate building societies with capitalist values.

*"Now the Building Societies Commission I think they are unhelpful in that they appear to imply that commercial practice in the banking or plc world is the model that we should all aspire to, which to me appears to be pretty bad.... its perfectly possible that building society people need different sorts of attributes, an understanding about the community perhaps being one of them. So I think the commission didn't help, that then infused boards, non-executive boards with a view that these are the rules that we have to play by so we have to get in a more commercially aware, plc trained group of people....if you understand why your values and accounting are different, so you should be proud to use the word surplus not profit. ...But I think regulators simplify things I think if that's what our friends of the Bank of England are doing we'll do the same, we'll use the same words and that doesn't help, it doesn't help if you are trying to be different which we must be." (BSR5)*

Supporting this, the credit union interviewees held that the regulators lacked an understanding of small financial institutions; attempting to impose similar compliance guidelines upon them as larger financial institutions, whilst simultaneously they adopted a more overt interventionist approach:

*"The FSA writing to us about the millennium bug and demanding a disaster plan. Yet we had no computer for goodness sake, we told them it's a filing cabinet, but they still insisted on one" (CUCID2)*

*"I don't mind I think it does require regulation we have to have that. I don't care who does it as long as they do it in a language that we can all understand and that they have to realise they are speaking not only to the big bankers and the movers and the shakers and all the rest of it, but they are also speaking to the person in the street and they've got to tailor to the needs of the people they are dealing with." (CUCID2)*

*"Then we got it registered and ... the priest, he became the first chair and was immediately told by the Registrar that priests shouldn't be the chairs."*

Interviewer: *"Why not?"*

Respondent: *"Because I suppose there is less stability with them than there is with Methodist ministers but they said well they could be sent away...Anybody could drop dead or move their job or whatever it happens to be."* (CUCIN2)

A second credit union also experienced this insistence on a different chair, while yet another was forced to close for two weeks during a FSA investigation. Although no evidence of wrongdoing was found, the credit union lost momentum and the goodwill of members, and no apology was forthcoming from the FSA. One interviewee alleged that the regulators and government also interfered with the national structure of credit unions:

*"On a national level through a national organisation representation they've been a pain in the backside at times because of the stand they took on wanting one national body and then as a way of doing that they said they would only accept one national body rules. It took them twelve months to sit down and talk with us and they suddenly found that as a national organisation we were probably a lot closer to them than ABCUL."* (CUCIN2)

Two other interviewees found themselves under pressure by the regulators to join ABCUL. However, this was explained by an interviewee as outcome of a bureaucratic state only wanting to work with large professional entities, regardless of whether it is a single trade association or larger building societies.

Although national state interference clearly irritated five credit union interviewees, four were more preoccupied with the attitude of the local state. Criticism ranged from having too close association with the council, encouraging a dependency culture among credit unions, promoting the development of too many small credit unions by linking this activity with local authorities' anti-poverty agenda.

*"Sometimes people see us as a branch of the council that's the other problem, especially as it's the council property and we're not in charge unfortunately and so if the council have a poor image then the credit union will have a poor image."* (CUCIN1)

*"As far as local authorities is concerned I think it has been fairly easy for them to do that, you know, it's been very convenient for them. We must tackle poverty so we'll get involved with credit unions, we'll do it through them but I don't think it is the answer."* (CUCID2)

Through this process credit unions became isolated from mainstream financial services and have been unable to remove the stigma of being the 'poor mans bank'. From the interviews it is apparent that the state has failed to understand mutuals and as a consequence has imposed ill-advised and inappropriate regulation. Additionally it has attempted to fit mutuals within a capitalist framework and when this has delivered unsatisfactory results, engaged in a process of marginalisation, reducing mutuality to an extension of the social services.

## 7.6 Economic Globalisation and the Processes of Glocalisation

Despite this concerted effort by the state and capitalism to denigrate mutuals they have at least temporarily weathered the tempest. Whether they have sufficient energy to survive another assault remains unknown, but the pessimism that was so prevalent among building societies in the late 1990s has ebbed and is being supplanted by a renewed sense of vigour. Equally, though credit unions are undergoing a traumatic shift to professionalism the interviewees were confident about the sector's future. Though a degree of these attitudes could be described as bravado, many contrasted the approach of the banks with their own attempts to reconnect and maintain connections with members, as discussed earlier in the chapter. All except three of the interviewees believed that the process of financial globalisation being followed by the banks was having a detrimental reaction among their customers.

*"They see it as being four or five global financial services businesses and they are all racing to get there because however big they are they are not big enough they have got to get bigger. That leaves a vacuum between them and their customers and that's clearly the space that we should be progressively seeking to occupy. They will take many of their customers but many of them including them with a little bit more non-conformist among them will say hey do we want to be part of that. Do we really want to be supporting Anthony Hopkins and his American application for nationality, aren't we something a little bit more local than that. Within that gap we as building societies could and should prosper."* (BSR5)

At least six of the interviews described a changing cultural tide as people began to question the validity of only having one form of ownership, and seek more from life than pure materialistic benefits.

*“That is the big challenge now going forward because more and more now the consumer is wanting to have a voice, consumer movement is becoming more populist, you can associate that with the environmental movements, concerns about standards of living rather than just making money etc, etc. if you like our country is changing from being totally materialistic to well I’ll like to go out to the country at the weekend so stop spoiling my countryside, I know you can make a fortune by putting a lot of houses on it but don’t do that. Those were issues that if you went back 25 years were irrelevant, people didn’t have a refrigerator said I need a refrigerator. People have a refrigerator now so suddenly that’s not the same issue. There are real problems don’t get me wrong but the overall wealth of the nation in physical, structural and material terms has increased enormously....In many ways the opportunity for mutuals to come in and say yes we see those as important, so yes we have to run an efficient business but we’d rather get it into context of what life is all about.” (BSN2)*

According to the interviewees this cultural change is being accompanied by growing unease, and sometimes disgust at the behaviour of the banks.

*“Where the banks are it seems to me are doing everything possible to drive people out of their branches and then when they’ve driven enough out they say well there’s not enough need for a branch in this area. The stories that we hear about - almost frog-marching people out of branches to use the machines outside. Abbey National closing down thousands of till positions, which means they put big advertising hoardings up where cashiers used to stand.” (BSR1)*

One credit union interviewee described how one member who had never previously borrowed asked for a loan:

*“He said I tell you why he said we normally pay cash for everything we don’t borrow but I’ve been inundated with all this stuff from the banks you know, have this card and do this and do that and we’ll give you all these different facilities. So I filled the form in and sent it into my bank and they turned me down and I’ve never owed anything in my life. Well I said that’s it, he said yes it is and I went into them and said why have I been turned down, I’ve been a good customer all my money’s come in and I’ve paid ever demand and bill, “you’ve no credit rating” therefore they turned him down. He hadn’t been a drain on society in that sense and yet the banks didn’t want to know him either and so he’s had numerous loans since then, he pays them off regularly and comes in and pays over the odds in that sense really... The banks just didn’t want to know him they weren’t even prepared to check on him in that sense from his own bank records, no he hadn’t borrowed anything from anybody else anywhere so he didn’t have a credit rating.” (CUCIN2)*

As banks globalised and became more distant from customers both building societies and credit unions believed their role as local and professional but personable financial providers would be successful.

*"It has sharpened up in two areas, one is the one we just talked about is the balance of price advantage to the individual and perhaps to the systems and the other is offering a choice of ethos to the customer, that's more subjective. Do you want to give this part of your life, your trading life, your personal financial connection to an organisation with a mutual ethos or do you want it to be totally anonymous and happy for it to be traded by Barclays or in Deutsche bank." (BSR4)*

*"Talking to people when they come in and inquire we tell them if they are considering borrow even if they are not, their money that they invest with us is there for people to use within the community and we're borrowing and saving off one another and supporting one another and encouraging the money to be kept in the local community, as well by encouraging people, by controlling in that sense, if people are borrowing locally they are more likely to be purchasing their articles or whatever it happens to be or their services more locally." (CUCIN2)*

## **7.7 Conclusion**

This chapter has demonstrated that managers' conception of mutuality has been and continues to be shaped by the dominant discourse of capitalism. Managers feared being prescribed as 'social services' believing this undermined their legitimacy as economic agents. The cultural components of mutuality still have relevance but are under threat from depersonalisation, short-termism and commodification of services. These affect both the competitiveness of mutuals and marginalize their cultural values. Similarly the commodification of ownership has perverted their democratic structures. The import of capitalist managers, who did not understand mutuality, alongside the environmental shifts caused by Thatcherism and globalisation, have together ultimately undermined and restricted the activities of mutuals.

However, mutuals are confident they can prosper because of resistance to globalisation by the public and an increasing interest in the glocalisation of services. If true this may partially explain how the building society avoided terminal decline in the 1990s, but what remains unknown is whether ordinary members share this optimistic view of the future, a question that will be addressed in the next chapter.

## 8 Attitudes of Members

As stated in chapter six, there has been only minimal research on the views of members, and only in the work by Berthoud and Hinton (1989) was any attempt made to contrast this with the opinion of managers. The purpose of this chapter is to examine whether members of different mutuals hold differing views of their mutual and mutuality, or whether other factors such as class, gender, age, or political allegiance have a stronger influence. In particular it is necessary to assess the validity of the functionalist claim that mutuals become more remote from members as they grow, or whether changing social and political conditions affect this relationship. The chapter commences with an overview of independent variables collected from the sample, before reviewing members' knowledge of mutuality, their perception of accountability and democracy, the extent of their commitment and nature of the reciprocity with the mutual, before briefly examining their view on the future of the mutual. Finally, in an attempt to explore the embeddedness narrative, members' attitudes towards mutuality are contrasted against their opinions of privatisation.

Before outlining these findings it is necessary to highlight an important caveat. The results are presented in table form and on occasions have been aggregated to emphasise a particular analysis. However, in doing this I accept that there may be a degree of selection bias in the resultant tables, due to employing slightly different survey methods in the collection of the data.

### 8.1 General Information on Sample

Table 8-1: Total Percentage of Respondents by Mutual Organisation

	Number of Respondents	Percentage of total
Employee CU	55	31%
Community CU	23	13%
Regional BS	50	28%
National BS	50	28%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>

Table 8-1 confirms the size of sample and the distribution of respondents across the

chosen mutuals. As previously noted the response rate from Community CU makes any findings statistically unsafe and to demonstrate awareness of this the number of respondents has been placed alongside the appropriate percentages. This sample is not meant to be representative but does provide an indication of the general views of members.

**Table 8-2: Total Percentage of Respondents by Type of Relationship with the Mutual**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Saver	106	59%	21	34%	7	30%	37	74%	41	82%
Borrower	3	2%	0		0		2	4%	1	2%
Both a saver & borrower	69	39%	34	62%	16	70%	11	22%	8	16%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	<b>55</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>50</b>	<b>100%</b>	<b>50</b>	<b>100%</b>

The first question asked how members would describe their economic relationship with the mutual (Table 8-2). Though the majority perceive themselves purely as savers, there is a contrast between building society and credit union members, with the latter using their mutual for both services. The most likely explanation for this is that credit unions demand members show commitment to saving for a fixed period before being allowed to borrow. In contrast 81% of building society members appear to use just one service, which may affect their commitment to the mutual.

**Table 8-3: Total Length of Membership of the Mutual**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Under a Year	15	8%	1	2%	9	39%	2	4%	3	6%
1-3 years	41	23%	23	42%	2	9%	13	26%	3	6%
3-5 years	24	14%	8	14%	5	22%	5	10%	6	12%
5-10 yrs	36	20%	14	26%	5	22%	9	18%	8	16%
10-20 yrs	25	14%	1	2%	0		9	18%	15	30%
20 years plus	26	15%	0		0		11	22%	15	30%
No response	11	6%	8	14%	2	8%	1	2%	0	
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	<b>55</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>50</b>	<b>100%</b>	<b>50</b>	<b>100%</b>

Another measure of commitment may be how long the respondent had been a member of the mutual. Table 8-3 details their responses and shows an even split with 49% over and 45% under five years of membership. The contrast between credit unions and building societies is because neither credit union began trading until the 1990s, while 60% of National BS respondents had been members in excess of ten years. As carpetbagging only began in 1995 the longevity of membership by the building societies respondents should provide an insight into the views of ordinary members.

**Table 8-4: Gender of Respondents**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Women	99	56%	9	16%	18	78%	37	74%	35	70%
Men	99	44%	46	84%	5	22%	13	36%	15	30%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%

The gender portrait of members (Table 8-4) reflects a bias towards women, with the exception of Employee CU where there is a preponderance of men; directors are men, which reflects their workplace, while the all the employees were women. A survey of the building societies was undertaken during the day outside branches, and it is likely that the nature of women's employment has affected the sample. In the case of Community CU the chairperson, a woman, confirmed that most members were women, although she did not have any statistical evidence in support of this statement. Furthermore, women are slightly more inclined to be members for longer with 54% being members for over 5 years compared to 42% for men, and 39% over ten years compared to 15% for men.

**Table 8-5: Age of Respondents**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
18-30	28	16%	13	24%	6	26%	2	4%	7	14%
31-50	76	43%	32	58%	8	35%	20	40%	16	32%
51-65	54	30%	7	13%	7	31%	18	36%	22	44%
65 plus	16	9%	0		1	4%	10	20%	5	10%
No response	4	2%	3	5%	1	4%	0		0	
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%

There is an even spread of ages throughout the sample (Table 8-5), with a slight weighting for those over 50. However, this disguises the differences between the mutuals, with the credit unions having a much younger age profile than the building



societies, in particular Regional BS.

**Table 8-6: Occupation of Respondents (division on class basis)**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS		
Professional	12	7%	2	4%	0	2%	9	18%	1	2%	
Technical	65	36%	0	45	82%	1	12%	13	26%	6	12%
Skilled Non-Manual	28	16%	7	13%	5	16%	8	16%	8	16%	
Skilled Manual	7	4%	0		2	8%	1	2%	4	8%	
Semi-skilled	11	6%	0		2	16%	1	2%	8	16%	
Unskilled	15	8%	0		1	22%	3	6%	11	22%	
Unemployed	5	3%	0		1	8%	0		4	8%	
Retired	17	10%	0		2	12%	9	18%	6	12%	
Home manager	9	5%	0		1	4%	6	12%	2	4%	
No response	9	5%	1	1%	8		0		0		
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%	

Respondents were asked their occupation and from this an occupational class schema was extrapolated (Table 8-6). The difference in the class basis of the building societies is probably explained by the location of the branches selected, being from different socio-economic areas. Consequently almost half of Regional BS respondents were from professional and technical classes, while 46% of National BS's were either semi or unskilled, or unemployed. Although the sample from Community CU is small the data suggests that its member are less likely to be the financially excluded than those from the National BS. Though contrary to much credit union rhetoric, it does reflect Jacob et al. (2002) who argued that American credit unions do not adequately serve those most excluded. However, this data goes further and indicates that National BS is more inclusive than the credit union that operates in the same community. However, to confirm this proposition requires a much larger sample but it does suggest that an individual institution, not necessarily the institutional form, is an important variable when assessing financial inclusion. Equally it cannot be argued that all industrial credit unions are more inclusive than a regional building society branch in a wealthy borough. A cross tabulation of the class profile against gender shows that all the unemployed and home managers were women and all but two of the technicians were male. Additionally women comprised of 23% of skilled non-manual and 5% of skilled manual, while the

situation of men was reversed with 28% and 7% respectively. Although only a small and unrepresentative data set, this information suggests that it does reflect the gender and class inequalities in Britain.

The most unrepresentative of the variables was the political affiliation of respondent, with more Conservative than Labour supporters. However, this is partially due to the unevenness of the sample size at Employee CU. Regional BS respondents favoured Conservatives, while National BS and Community CU preferred Labour. Considering the location of the surveys the resulting distribution of support is unsurprising. Further analysis demonstrated that men were stronger supporters of the Conservatives (47% to 24% for Labour and 85% for the Liberal Democrats) than the women who preferred Labour (36% to 29% for Conservatives and 14% for the Liberal Democrats). While the class and age analysis showed solid support for the Conservatives among professionals (42%), technical (49%), and those over 65 (75%), this contrasted with stronger Labour backing for skilled manual workers (72%), semi-skilled (64%), unskilled (53%), unemployed (80%) and the under 30s (43%). Therefore although the sample is biased towards Conservatives respondents, it still divides along conventional class dimensions.

**Table 8-7: Political Allegiance of Respondents**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Conservative	66	37%	26	47%	5	22%	25	50%	10	20%
Labour	55	31%	8	14%	11	48%	8	16%	28	56%
Liberal Democrat	20	11%	5	9%	1	4%	8	16%	6	12%
Floating	6	3%	3	6%	0		3	6%	0	
None of them	14	8%	1	2%	3	13%	4	8%	6	12%
Other	2	1%	1	2%	0		1	2%	0	
No response	15	9%	11	20%	3	13%	1	2%	0	
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%

## 8.2 Respondents Knowledge of Mutuals

In previous chapters it was argued that education was a crucial aspect of mutuality.

Therefore members were asked various questions to attest their knowledge of mutuals and to help assess whether there was a link between this and their commitment to

mutuality. Within mutual literature emphasis is placed on the difference between users as members and that of customers within joint stock companies, consequently respondents were asked their perception of this.

**Table 8-8: Respondents' Perception of Themselves as Customers or Members of the Mutual**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Customer	62	35%	7	13%	1	4%	24	48%	30	60%
Member	102	57%	47	85%	21	92%	17	34%	17	34%
Both a customer & a member	13	7%	1	2%	1	4%	9	18%	2	4%
No response	1	1%	0		0		0		1	2%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%

Though 57% saw themselves as members, Table 8-8 shows a clear distinction between credit unions and building societies, with the latter users clearly having less understanding or acceptance of membership. A trend towards users as customers was correlated with size, with 60% of National BS users perceiving themselves as customers. Cross tabulations presented an alternative explanation with gender, age, and to a lesser extent class as the key variables. Among the building society respondents, 50% of men saw themselves as members (plus 11% argued they were both), while 61% of women perceived themselves as customers. All 8 of the respondents under 30 saw themselves as customers, as did 73% of pensioners. Moreover there was no evidence that the length of use was correlated with a perception of membership. Finally, while professionals saw themselves as members, the unskilled and unemployed were more likely to be customers. These findings would suggest that the educative relationship with members has been patchy and predominantly aimed at men.

**Table 8-9: Respondents' Perception of Their Ownership Rights of the Mutual**

	Number of Respondents	Percentage of total
Users are owners	117	66%
Users are not owners	36	20%
Don't Know	25	14%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>

Respondents were then asked a series of questions on the distinctive aspects of mutuality. Two-thirds considered themselves as owners and there were no significant differences between the different mutuals (Table 8-9). After cross-tabulation, the only measurable distinction was that those that perceived themselves as members had a greater sense of ownership (79%) than those who thought they were customers (50% with 32% against and 18% don't know).

**Table 8-10: Respondents' Knowledge of Whether Users of Mutuals are Known as Members**

	Number of Respondents	Percentage of total
Users are known as members	155	87%
Users are not known as members	10	6%
Don't know	13	7%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>

After asking how they perceived their relationship with the mutual (Table 8-10) almost 90% of respondents confirmed that users of mutuals were known as members, suggesting a difference between their knowledge of mutuality and the treatment by their mutual

**Table 8-11: Respondents' Knowledge of Whether Users of Mutuals can be Elected to the Board**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Users can stand for election	94	53%	21	38%	17	74%	25	50%	31	62%
Users cannot stand for election	15	8%	1	2%	0		5	10%	9	18%
Don't know	69	39%	33	60%	5	22%	20	40%	10	20%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%

Table 8-11 demonstrates that although 53% thought users could stand for election there were considerable differences between the mutuals, with respondents from the largest and smallest having a greater knowledge of this aspect of mutuality. After cross-tabulation the only variables that had a slight effect were age (57% of 18-30s did not know and 69% of over 65s did) and length of membership. It is more likely that the

high profile contested elections that have been a feature of National BS have ensured a stronger awareness of mutual democracy. Similarly, perhaps Community CU has better educative process than Employee CU, which indicates that claims that industrial credit unions struggle to recruit volunteers because of the passive nature of membership (i.e. savings made by direct debit and credit union established by the organisation) may have some validity.

**Table 8-12: Respondents' Knowledge of which Institutions Were Building Societies**

	Number of Respondents	Percentage of total
Halifax	22	22%
Abbey National	13	13%
Abbey National & Halifax	5	5%
Abbey National or Halifax, plus another mortgage bank	8	8%
Other mortgage bank	6	6%
Britannia	10	10%
Nationwide <sup>7</sup>	5	5%
Bradford & Bingley	5	5%
Other building society	6	6%
Could not name any	14	14%
Did not think there were any left	6	6%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

While the majority of members have some understanding of the constitutional aspects of mutuality, I wanted to know what institutions were mutuals, thus the building society respondents were asked to name up to three other building societies. As Table 8-12 demonstrates many thought the Halifax and the Abbey National were still building societies, while only 21% named an existing building society. This presents a challenge for the building societies as they attempt to differentiate themselves from mortgage banks. Moreover, as a number of building society interviewees highlighted, the former building societies have been tardy in removing any association of their name to building societies. This suggests a degree of public goodwill in the words 'building society' that may be absent in banks.

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<sup>7</sup> As half the respondents were members of the Nationwide it was probable they would appear less recognisable on this list

Interestingly six did not think there were any building societies remaining and another 14 could not name any. Many others struggled to recall a society, a typical response being that there are “so few left”. It is possible that the wave of demutualisation has created an impression that building societies are in terminal decline and are being marginalised from the public consciousness of mainstream financial institutions.

**Table 8-13: Respondents’ Awareness of the Phrase Demutualisation of Building Societies**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Were aware of term	104	58%	36	66%	9	39%	35	70%	24	48%
Were not aware of term	64	36%	14	25%	9	39%	15	30%	26	52%
Don’t Know	10	6%	5	9%	5	22%	0		0	
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	<b>55</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>50</b>	<b>100%</b>	<b>50</b>	<b>100%</b>

To assess members’ knowledge of contemporary debates within mutuals, respondents were asked whether they were aware of the demutualisation process. Intriguingly Table 8-13 shows that respondents from National BS, which had been under the most sustained assault from carpetbaggers, were less aware of demutualisation than those from Regional BS who had faced no challenges. Cross-tabulations indicated that approximately two-thirds of, men, those aged between 31-65, and those who had held membership between 1-10 years had heard of demutualisation, compared to a 50% chance for women, and those aged under 30 and over 65. However, the most significant variable was class with almost 80% of professionals and technicians aware of demutualisation, compared to 20% knowledge for those in working class occupations and the unemployed. As windfalls from demutualisation require savings of a least £100 and is often tiered with higher benefits for those with greater investments, it is possible that that awareness is linked to those that have gained most from the process.

**Table 8-14: Respondents' Knowledge of which Building Societies had Demutualised**

	Number of Respondents
Halifax	62
Abbey National	32
Bradford & Bingley	12
Alliance & Leicester	9
Woolwich	4
National & Provincial	3
Northern Rock	3
Birmingham Midshires	2
Cheltenham & Gloucester	1
Other Mutuels	10
Nationwide BS	2
<b>TOTAL</b>	<b>140</b>

Following this question, and to confirm the validity of the previous question, respondents were asked to name any demutualised building societies. Table 8-14 demonstrates that awareness correlated with the size of the institution, with a slight northern bias probably due to the survey locations. The only converter not mentioned exemplified this, the Bristol and West, which had few branches in the north.

**Table 8-15: Respondents' Awareness of the Term Carpetbagging**

	Number of Respondents	Percentage of total
Were aware of term	67	67%
Were not aware of term	33	33%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

Linked to the previous two questions respondents were asked whether they knew the term 'carpetbagger' and if so what they understood it meant. Table 8-15 shows that two-thirds recognised it and identical results were found from respondents from both building societies. However, upon closer analysis, 86% of men knew of carpetbaggers compared to 60% of women and only 44% of those under 30. Additionally 76% Conservative and Liberal Democrat supporters had heard of carpetbaggers in contrast with 58% of Labour voters, and a similar trend was apparent across class with professionals having 80% awareness as opposed to 40% for skilled manual workers. There was no evidence that recent members had a more mercenary attitude than long-standing users as awareness rose with length of membership. From these findings I would propose that knowledge and comfort with financial services directly affected awareness of mutuels and mutuality. From this it is probable that the majority of

carpetbaggers are middle class men.

This was partially confirmed when respondents were asked to define carpetbaggers, though all stated they were individuals who joined a building society in the hope of receiving a windfall, this was often accompanied by more pejorative statements, which exposed sharp differences between the members of Regional BS and National BS. At Regional BS many were neutral or equivocal about carpetbaggers, though three men stated that they had received an unfair reputation:

“It’s a misnomer, a critical term of a shrewd investor who puts money into a building society in case it goes private”

In contrast three women were more critical describing it as *“cheating”*, *“legal but underhand”* and carpetbaggers as *“get rich quick merchants”*. At National BS carpetbaggers received an even more hostile reception with no respondent prepared to defend them. Opinions included *“People who open accounts to close building societies down”*, *“Out to make money and get what they can”*, *“Making money by false pretensions”*, *“Moving in and taking what they can”*, *“Its just a version of a rip-off”*. These quotes demonstrate that opponents of demutualisation adopt a moralistic argument rather than the narrow economic arguments made by supporters.

**Table 8-16: Respondents’ Awareness of Dividend Paid by their Credit Union**

	Number of Respondents	Percentage of total
Up to 1%	1	1%
2%	2	3%
3%	4	5%
4%	2	3%
5%	14	18%
Above 5%	2	3%
Depends on Surplus	6	7%
Don’t know	47	60%
<b>TOTAL</b>	<b>78</b>	<b>100%</b>

To measure member awareness in credit unions I asked respondents if they could state how much dividend members received. As Table 8-16 shows only 7% answered correctly that it was dependent on the surplus made. Instead 14 members of Employees CU thought it was 5%, which had been the previous years dividend. This suggests that respondents’ knowledge of how a credit union functions is no greater than that of the



building society respondents. Thus there does not appear to be a clear link between size of institution and understanding and educative processes. Rather knowledge of mutuality correlates more with gender and class, with mutuals struggling to differentiate themselves from banks among women, the young, and the working class. As the middle classes benefit most from demutualisation this may detrimentally affect building societies desire to remain mutual. However, it is possible to communicate more effectively with less knowledgeable groups through social arguments.

### 8.3 Trust, Accountability, and Democracy

Although the building society interviewees in the previous chapter wanted to develop a more holistic understanding of mutuality, for members, especially carpetbaggers (see chapter10) the debate has concentrated on accountability and democracy.

The interviewees argued that accountability was through a range of social actors of which the membership was one part. This is partially supported by respondents' answers, which are presented in tables 8-17 and 8-18.

**Table 8-17: Respondents' View on Whether Members Should Have More Say in Running of Building Societies**

	Number of Respondents	Percentage of total
Should	40	40%
Should Not	47	47%
Don't Know	13	13%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

**Table 8-18: Respondents' View on Whether Building Society Directors Should be More Answerable to Members**

	Number of Respondents	Percentage of total
Should	72	72%
Should Not	10	10%
They already are	1	1%
Don't know	17	17%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

Many respondents felt that members were inadequately qualified to contribute to the

management of the society, typically justified by comments such as “*we don't know what we're talking about*”. In this respect respondents were willing to leave the running of the society to the professional management. However, respondents did want the board to be more answerable, suggesting that either they were insufficiently accountable and too remote at present, or that the accountability needed to be closer to members. From this it appears that members have no overwhelming desire to be involved but cross tabulation showed that deference toward management was stronger among men, and older and more long standing members, while virtually all younger members and over 50% of women would like a greater voice. This also applies to those who perceive themselves as customers and those with less knowledge regarding demutualisation and carpetbaggers. Thus building societies are adequately serving the needs of their traditional constituency but as usage of private sector financial services becomes more widespread, less knowledgeable individuals are likely to seek more engaged and trusting relationships with institutions.

**Table 8-19: Respondents' View on Whether Directors Should Allow a Vote to Become a Bank**

	Number of Respondents	Percentage of total	Regional BS		National BS	
Should	76	76%	40	80%	36	72%
Should Not	12	12%	5	10%	7	14%
They already do	5	5%	0		5	10%
Don't know	7	7%	5	10%	2	4%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>	50	100%	50	100%

Many societies have cited legitimate legal reasons for avoiding conversion and believe that any vote is unfair because members are voting to receive a free windfall. From Table 8-19 it can be shown that building societies are right to be fearful of the outcome of any vote, especially as a few respondents confessed that they would like the windfall. Three-quarters of respondents wanted a vote and this remained constant for all variables, but the results from National BS indicate a degree of wariness about the continuous demutualisation elections.

**Table 8-20: Respondents' View on Whether Directors Should be Allowed to Expel People Who Want to Convert the Building Society to a Bank**

	Number of Respondents	Percentage of total
Should	18	18%
Should Not	74	74%
Don't Know	8	8%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

A number of societies, most notably the Portman, have expelled members who proposed a conversion vote. This has proved a contentious issue among carpetbaggers and even a majority of the building society interviewees were unhappy about the action. Table 8-20 demonstrates members' distaste for this approach. When asking the question even those that supported mutuality believed expulsion was an undemocratic practice, comparing it to the actions of a "third world dictatorship".

**Table 8-21: Respondents' View on Whether Mutuals Ignore the Wishes of Their Members**

	Number of Respondents	Percentage of total
True	3	2%
Mainly True	4	3%
Neither true or false	19	16%
Mainly False	14	12%
False	76	63%
Don't know	5	4%
<b>TOTAL</b>	<b>121</b>	<b>100%</b>

Respondents were asked whether their mutual ignored the views of members and the overwhelming majority rejected this statement (Table 8-21). Not one of the credit union respondents accepted the argument, and though this is weaker in building societies with more saying their society neither ignored nor listened to members, a majority still trusted their mutual. Therefore though members would like a greater level of engagement and more democratic processes, a significant majority still believe their mutual listens to and heeds their opinions. It would be interesting to compare this degree of trust to that felt by customers of banks. Clearly trust between members and their mutual does not necessarily coalesce around conventional accountable structures, but appears more subjective, possibly dependent on reciprocity, commitment and longevity.

## 8.4 Commitment and Longevity

Mutuals were originally started to provide services for those who faced financial exclusion and Table 8-22 details whether they are still serving this market.

**Table 8-22: Whether Respondents Have an Account With Another Bank or Building Society**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Do have an account	139	78%	53	96%	11	48%	42	84%	33	66%
Don't have another account	28	16%	0	0	11	48%	4	8%	13	26%
No response	11	6%	2	4%	1	4%	4	8%	4	8%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	<b>55</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>50</b>	<b>100%</b>	<b>50</b>	<b>100%</b>

These confirm the findings in Section 8.1 that National BS includes a more deprived constituency than Employee CU, with 26% of its members only possessing a single account compared to none at Employee CU. Equally, though the survey of Regional BS respondents was in a wealthy district, there were still 4 people who only held a building society account. However, Community CU drew members equally from those with and without an account. Across the sample women were twice as likely to not have another account than men (20% to 10%), only 60% of the working class and unemployed had another account, and 31% of those over 65 had a single account.

**Table 8-23: Details of Other Accounts Held by Respondents**

	Number of Respondents	Percentage of total
With another building society	9	5%
With two other building societies	2	1%
With a bank and a building society	14	8%
With a bank and two or more building societies	2	1%
With two or more banks and a building societies	8	5%
With a bank(s)	88	49%
No response	55	31%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>

A number of building society interviewees had complained that the increase in ‘churning’ was having a detrimental impact on reciprocity and longevity within mutuals. This research offers some evidence of this with 97% (37 out of 38) of those with an account for between one and three years possessing at least one other account. Further evidence is found in Table 8-23 where 88 respondents had a bank account and 26 members of Regional BS and Employee CU were multiple (over two) account holders. Additionally only two of the working class respondents were multiple account holders, while those more aware of demutualisation and carpetbaggers were more likely to have multiple accounts. Therefore it is possible that the tendency to churn is closely related to the personal financial sophistication, which favours the middle classes. Consequently building societies are perceived differently by the classes, with the working class reliant on them for most services, while the middle class use them as a shrewd investment with the potential of a windfall.

**Table 8-24: Respondents’ View on Whether They Would Move their Account if Their Local Branch Closed**

	Number of Respondents	Percentage of total	Regional BS		National BS		Middle class		Working class	
Yes	40	40%	15	30%	25	50%	17	38%	18	56%
No, find another branch	46	46%	27	54%	19	38%	21	46%	12	38%
Depends on circumstances	4	4%	2	4%	2	4%	3	7%	1	3%
Yes, but to another building society	8	8%	5	10%	3	6%	3	7%	1	3%
Don’t know	2	2%	1	2%	1	2%	1	2%	0	
<b>TOTAL</b>	<b>100</b>	<b>100%</b>	<b>50</b>	<b>100%</b>	<b>50</b>	<b>100%</b>	<b>45</b>	<b>100%</b>	<b>32</b>	<b>100%</b>

Further endorsement of this analysis is presented in Table 8-24; here it is apparent that members of Regional BS are more likely to stay with the society regardless of whether the local branch closes. However, when analysed for class, working class loyalty is connected with reciprocity and immediacy of service provided by the local branch. Therefore the branch is an important means of delivering mutuality to the working class, while the middle class have a more commodified relationship as they have access to a number of providers for other services. Again this highlights the balance building

societies must have between being marginalised and serving their most loyal supporters.

**Table 8-25: Percentage of Respondents who had Received Shares from Demutualisations**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Yes	56	<b>32%</b>	23	42%	1	4.5%	22	44%	10	20%
No	104	<b>58%</b>	27	49%	21	91%	20	40%	36	72%
Don't know	7	<b>4%</b>	1	2%	1	4.5%	3	6%	2	4%
No response	11	<b>6%</b>	4	7%	0		5	10%	2	4%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%

It is possible that loyalty to a mutual is inversely connected to ownership of a demutualised company's shares; therefore respondents were asked whether they have received a windfall. Table 8-25 shows that members of Employee CU and Regional BS were more likely to have received a windfall and these findings are reflected in the class analysis. 26% of the working classes have received shares compared to 40% of middle class respondents who did. Moreover, almost as many Conservatives had received shares (44%) as did not (46%), compared to only 20% of Labour supporters. Again there appeared a correlation with personal financial literacy with 39% of those knowing about demutualisation and carpetbaggers owning shares. Finally, length of membership is significant with an equal percentage (46%) of those with between one and three years membership and 42% of between three and five years having received a windfall. This may indicate that newer members were partially motivated by opportunism, which may explain the preponderance of those with shares joining Regional BS which has never had a conversion vote.

**Table 8-26: Respondents' Attitude Towards Demutualisation**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Strongly approve	10	6%	4	7%	0		4	8%	2	4%
Approve on the whole	23	13%	7	13%	2	9%	7	14%	7	14%
Mixed	33	18.5%	21	38%	1	4%	6	12%	5	10%
Disapprove	33	18.5%	1	2%	2	9%	11	22%	19	38%
Strongly disapprove	13	7%	0		0		7	14%	6	12%
Don't know	55	31%	19	35%	15	65%	13	26%	8	16%
No response	11	6%	3	5%	3	13%	2	4%	3	6%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	<b>55</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>50</b>	<b>100%</b>	<b>50</b>	<b>100%</b>

Following this question respondents were asked their view of demutualisation and as Table 8-26 demonstrates, opinions were evenly divided. Attitudes at National BS were most polarised and this may be because the issue has been extensively debated during the past five years. Only respondents at National BS were clearly opposed to demutualisation with 50% against and 18% in favour, with Regional BS dividing 36% to 22%. Most respondents from Community CU did not answer the question, while though 38% were undecided at Employee CU only one person was against the process. After performing cross-tabulations only the length of membership and ownership of other demutualised shares were significant. The greatest opposition to demutualisation was among those with the longest membership with 54% of those with over 20 years membership and 32% of those between 10-20 against demutualisation. This suggests that there may be a connection between longevity of membership and commitment to mutuality. Equally those with demutualised shares favour demutualisation by 30% to 25%, compared to 12% to 29% by those opposed. Therefore loyalty to a mutual is closely related to the extent and length of personal service and negatively correlated to the personal financial awareness of the investor, which can be identifiable as multiple account holders and demutualised companies shareholders.

**Table 8-27: Respondents' Attitude on Whether their Building Society Should Become a Bank**

	Number of Respondents	Percentage of total	Regional BS		National BS	
Should	30	30%	19	38%	11	22%
Should not	56	56%	24	48%	32	64%
Don't know	14	14%	6	12%	7	14%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>	<b>50</b>	<b>100%</b>	<b>50</b>	<b>100%</b>

Respondents were then asked whether their building society should become a bank and though a majority rejected the notion, Regional BS failed to receive an outright majority. After cross-tabulations though women were more in favour of conversion (33%) than men (21%), the only significant correlation was ownership of demutualised shares with 40% of those with shares wanting conversion compared to 43% who did not. In contrast only 25% of those without shares wanted demutualisation and 63% were against.

During this question respondents volunteered their opinions of the possible conversion of their society and responses fell into three categories. Two made it clear that they wanted conversion and a small number who claimed not to be carpetbaggers believed it was a decision for members and the board, though they would not offer their own opinion. One of these had previously described carpetbagging as a misapplied term and hence this group were probably serial carpetbaggers. A second group were more pragmatic; hoping for a windfall if it should arise but believing it would not lead to an improved service. Finally seven had previously received demutualised windfalls but the deterioration in service that followed left them opposed to the process:

*“Lots of people want it but it’s a short-sighted policy. We had a mortgage with the N&P and had no real say. The service got so bad we left.”*

The evidence demonstrates that many members are committed to their mutual, but this is invariably correlated with class and length of membership. Additionally the most sophisticated investors display little commitment to their society and once they received their personal benefit, either through commodified products or a windfall, they depart. In contrast working class members’ commitment is non-price sensitive being mainly reliant on the continued existence of branches. Overall a small majority of members



remain opposed to demutualisation and the most implacable among those had previously been beneficiaries of the process elsewhere. This suggests that reciprocity may become increasingly prominent for mutuals as it attracts business from supporters of mutuality and those alienated by banks.

## 8.5 Reciprocity

The extent of participation is usually perceived as the main measure of reciprocity within mutuals, the main indicator in building societies is electoral turnout and 14 of National BS respondents confirmed they had voted at the previous directors election, all of who supported the official candidates. Unfortunately none of the respondents from Regional BS confirmed they had voted. The probable explanation being the contested elections at National BS and the accompanying press coverage, compared to the uncontested elections at Regional BS. As credit unions are smaller they are assumed to have greater levels of participation. In the survey credit unions respondents were asked whether they had attended the AGM, a social event, or any other meeting. Eight members of Employee CU and five from Community CU had attended their respective AGMs, meanwhile three from Employee CU had gone to a social or any other function, compared to seven from Community CU. In all cases it was the same people who went to the AGM and the social occasions. In addition I was invited to the Community CU AGM in 2000 at which 14 members were present. Based on this collective evidence, members of the credit union display no greater engagement in their mutual than that of National BS, suggesting that controversy not size of institution is more likely to affect participation.

**Table 8-28: Respondents' Attitude on Whether the Credit Union Provides a Greater Sense of Belonging**

	Number of Respondents	Percentage of total	Employee CU		Community CU	
Yes, definitely	14	18%	4	7%	10	44%
Yes, maybe	14	18%	10	18%	4	17%
Don't know	13	15%	8	15%	5	17%
No, not really	36	48%	32	58%	4	17%
No, definitely not	1	1%	1	2%	0	4%
<b>TOTAL</b>	<b>78</b>	<b>100%</b>	<b>55</b>	<b>100%</b>		<b>100%</b>

Promoters of credit unions argue that the common bond provides cohesion and helps bring a community together. To explore this, respondents were asked if the credit union provided a greater sense of belonging. Table 8-28 shows sharp distinction between respondents from the two credit unions, with 60% of Employee CU respondents arguing that the credit union has not been a cohesive force, contrasted with 61% of Community CU members who believe it is. Once again this demonstrates that members of industrial credit unions have little attachment or engagement with their institution, perhaps they regard this service as an employees perk rather than an independent mutual financial institution.

**Table 8-29: Respondents' Attitude on Whether They Would Remain a Member of the Credit Union if Their Contributions Were Not Deducted From Their Salary**

	Number of Respondents	Percentage of total
Yes, definitely	22	40%
Yes. Maybe	14	25%
Don't know	6	11%
No, not really	12	22%
No, definitely not	1	2%
<b>TOTAL</b>	<b>55</b>	<b>100%</b>

To further assess this proposition respondents from Employee CU were asked whether they would remain a member if their contributions were not deducted directly from their salary. Almost a quarter would leave if this service was stopped and only 40% would definitely remain members. However, this does mean that 40% do see a value in the service beyond mere convenience, but it does offer further implicit support for the company perk proposition. If this response is universal, it may have a serious impact on the future development of credit unions, as live and work common bonds are now being promoted as the norm. As a result credit unions may have two classes of members with different levels of commitment and reciprocity, an experience currently endured by the building societies.

**Table 8-30: Number of Respondents who had used the Internet for On-line Banking**

	Number of Respondents	Percentage of total
Yes	7	7%
No	89	89%
Don't know	4	4%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

Proponents of globalisation within the banking industry have trumpeted the use of the internet which will reduce costs through reductions of interactions between social actors. Table 8-30 demonstrates that only 7% of respondents had used the internet for banking. Among the respondents who did not use the internet there was no desire to use the technology and many expressed opposition to losing the personal interaction with branch staff.

**Table 8-31: Number of Respondents Who had used the Internet for Financial Information**

	Number of Respondents	Percentage of total
Yes	10	10%
No	73	73%
Don't know	17	17%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

Due to concerns about security it may be anticipated that respondents would be nervous about internet banking but they were also resistant to accessing information in this way. Table 8-31 shows that only three more respondents had used the internet for financial information, while during the interviews only two believed there was a benefit in using this service. Overall many were suspicious that the internet was a means employed by financial institutions to close branches. As one respondent said, *"I like getting my book stamped by her, you can trust them"*.

**Table 8-32: Respondents' Attitude on Whether Branch Opening Hours Were Convenient**

	Number of Respondents	Percentage of total
Yes always convenient	88	88%
Most of the time	7	7%
Not all of the time	1	1%
Inconvenient	4	4%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

Respondents' antipathy towards new technology is reinforced in Table 8-32, which demonstrates high levels of satisfaction with branch opening hours. Internet banking is invariably presented as a convenience issue, but there was no evidence that respondents found the current service delivery ineffectual. No respondent wanted hours reduced which raises questions about the motivation of banks that argue that branch closures are offset by access to internet banking.

**Table 8-33: Respondents' Attitude on Whether there were too many Bank/Building Society branches in their Community**

	Number of Respondents	Percentage of Total	Regional BS		National BS	
Too many	12	12%	11	22%	1	2%
About right	40	40%	21	42%	19	38%
Not enough	41	41%	13	26%	28	56%
Don't know	7	7%	5	10%	2	4%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>	50	100%	50	100%

In the early 1980s financial institutions were criticised for opening too many branches but as banks reversed this policy in the late 1990s concerns were raised about financial exclusion (Pratt et al. 1996). Table 8-33 confirms this anxiety with 41% believing there were insufficient branches. Moreover 56% respondents from National BS, which was in a more deprived location, felt more branches were required, while a majority of Regional BS respondents (64%) did not want any further branches. This evidence, while supporting Pratt et al.'s (1996) findings that branch closures disproportionately occur in poorer communities, suggests that respondents were aware of and opposed to the process. Arguments by financial institutions that branch closures are concerned with restructuring camouflage a class bias. Following this it would be expected that institutions that keep branches open will accrue considerable goodwill and this is partially confirmed when analysed against support for demutualisation. Fully 75% of those against demutualisation believe there are insufficient branches compared to only 30% of those that support conversion, suggesting that the reciprocity attached to branch retention is an important component of mutuality.

**Table 8-34: Respondents' View on Whether their Building Society Should Close Little Used Branches**

	Number of Respondents	Percentage of total	Regional BS		National BS	
Should close them	13	13%	6	12%	7	14%
Should not close them	80	80%	40	80%	40	80%
Don't know	7	7%	4	8%	3	6%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>	50	100%	50	100%

Table 8-34 provides further endorsement of this perspective with 80% opposed to their mutual closing little used branches, with identical opposition from both societies. This may be partially because the surveyed branch of Regional BS was itself only moderately busy, a fact accepted by four respondents who were concerned that the branch was about to close. Support was solid across all categories, even 80% of those

who wanted the society to become a bank opposed closure. This suggests a contradiction, with respondents wanting demutualisation but being opposed to the probable impact of that process. Similarly, building societies may need to close branches to maintain competitiveness but most respondents ignored this consideration. This demonstrates the risk of building societies relying on branch interaction as a means of delivering reciprocity, but as Table 8-24 shows, members' reciprocity through loyalty to the society is only moderate.

**Table 8-35: Respondents' Views on their Credit Union**

	Number of Respondents	Percentage of total	Employee CU		Community CU	
Professional	54	69%	46	84%	8	35%
Friendly	69	89%	48	87%	21	91%
Community/people oriented	25	32%	12	22%	56%	13
Amateurish/poorly run	0	0%	0	0%	0	0%

Without branches different variables had to be employed to assess reciprocity at credit unions. Against a list of options respondents were asked which best described their credit union and were permitted more than one selection (Table 8-35). Further evidence for the near absence of community cohesion at Employee CU was apparent as only 22% believed the credit union was community and/or people oriented, this contrasts with the 56% at Community CU. Part of the explanation for the equivocal Community CU support may be due to the process of transformation from wholly voluntary to a professional service. Unsurprisingly some respondents may reflect fondly on those earlier days when all members were known to each other.

More strikingly only 35% of Community CU respondents considered the credit union professional as opposed to 84% at Employee CU. From these results it is apparent that the transformation to professionalism has not been complete at Community CU. These findings expose the dilemma facing many credit unions, of how they balance the requirement to become more professional without sacrificing their community reciprocity. However, neither society was considered amateur and both received high marks for friendliness, from this it is clear that both credit unions still receive considerable degree of goodwill from members. What this table does not provide is the views of those who have chosen not to join the credit union.

**Table 8-36: Respondents' Views on which Additional Service they would like their Credit Union to Provide**

	Number of Respondents	Percentage of total	Employee CU		Community CU	
None	25	33%	25	46%	0	0%
Cash points	24	31%	10	18%	14	61%
Money advise	15	19%	10	18%	5	22%
Credit cards	11	14%	11	20%	0	0%
Cheque books	10	13%	8	15%	2	9%
Internet banking	5	6%	5	9%		
More collection points	4	5%	4	7%	0	0%
Longer opening hours	3	4%	2	4%	1	4%
Don't know	2	3%	1	2%	1	4%
Miscellaneous	7	9%	3	6%	4	17%

Michels' Iron Law of Oligarchy argues that as organisations become more professional they become more detached from members, however Table 8-36 suggests that this is yet to occur at the credit unions. Rather at Employee CU the members are demanding services currently beyond the organisation, and the staff at Community CU wanted to offer money advice and ultimately a cash point, both which were requested by respondents. The challenge for the credit unions is managing expectation, clearly the respondents at Employee CU would like a full range of banking services and this is unattainable with the current size of the organisation. If this is not communicated effectively, members may perceive their mutual unwilling to accede to their demands, which are influenced by the provision of services by larger capitalist entities.

## 8.6 Caution

In chapter two it was argued that caution is a main component of mutuality as it enables trust and reciprocity to flourish, and encourages both the mutual and member to engage in long-term planning. While building societies offer low risk savings accounts and secured lending such as mortgages, credit unions employ the policy of saving before borrowing to ensure stability of lending for relatively small amounts. Though this cautious lending strategy benefits the mutual, it is unclear whether it assists the member. To address this issue the following four Tables (8.37-40) analyse different aspects of this debate.

**Table 8-37: Respondents' View on Whether Being in the Credit Union Made it Easier to Save Money**

	Number of Respondents	Percentage of total	Employee CU		Community CU	
Much easier	63	81%	42	76%	21	92%
A little easier	7	9%	6	11%	1	4%
Neither easier of harder	6	8%	5	9%	1	4%
Don't know	2	3%	2	4%	0	0%
<b>TOTAL</b>	<b>78</b>	<b>100%</b>	<b>55</b>	<b>100%</b>	<b>23</b>	<b>100%</b>

In Table 8-37 90% of respondents believed using the credit union made it easier to save money. It may be anticipated that this question would receive strong affirmative response from Employee CU respondents who have their contributions deducted from their salary. However, it is Community CU respondents who feel they benefit most from the credit union.

**Table 8-38: Sources of Credit for Respondents Prior to Joining the Credit Union**

	Number of Respondents	Percentage of total	Employee CU		Community CU	
Bank	37	47%	31	56%	6	26%
Save up/gone without	14	18%	10	18%	4	17%
Store credit	13	17%	7	13%	6	26%
Never borrowed	10	13%	9	16%	1	4%
Moneylender	8	10%	2	4%	6	26%
Kinship group	8	10%	3	5%	5	22%

Though respondents clearly believed they benefited from membership of a credit union, it was necessary to assess whether using the service had merely displaced other legitimate credit sources. Table 8-38 does indicate that respondents appear to be using more credit and moving from conventional finance to the credit union, except at Community CU, where members are accessing credit unavailable through other means. In addition, borrowing from stores and moneylenders are both more expensive than credit unions (Dayson et al. 1999), while no high street bank offers loans less than £500. Credit unions are also recycling money within the community, unlike the banks who due to globalisation are removing money from communities and investing it elsewhere including tax-free havens or using it to speculate on the money markets. This is particularly acute in Britain since unlike the USA it does not have a Community Reinvestment Act that forces banks to invest in the communities where they draw their income. Moreover even the 31% who have never used credit can be interpreted

positively. In an increasingly consumerist society access and use of credit has become a social norm. A credit union may provide reassurance to those nervous about borrowing that they will not become over-indebted.

**Table 8-39: Respondents' View on Whether they would use Credit more or less if they Were Not Members of the Credit Union**

	Number of Respondents	Percentage of total	Employee CU		Community CU	
Much more	10	13%	3	5%	7	30%
A bit more	6	8%	5	9%	1	4%
About the same	38	49%	30	55%	8	35%
A bit less	12	15%	9	16%	3	13%
A lot less	7	9%	5	9%	2	9%
Never use credit	1	1%	1	2%	0	0%
Don't know	4	5%	2	4%	2	9%
<b>TOTAL</b>	<b>78</b>	<b>100%</b>	<b>55</b>	<b>100%</b>	<b>23</b>	<b>100%</b>

This is partially supported in Table 8-39 which shows that membership of the credit union neither encourages or discourages usage of credit. However, the less financially aware respondents from Community CU believed that the credit union has prevented them from accessing more credit.

**Table 8-40: Respondents' View on Whether Being in the Credit Union has made it Easier to Manage their Money**

	Number of Respondents	Percentage of total	Employee CU		Community CU	
Much easier	35	45%	20	36%	15	65%
A little easier	20	26%	16	29%	4	17%
Neither easier or harder	19	24%	17	31%	2	9%
More difficult	1	1%	0	0%	1	4.5%
Don't know	3	4%	2	4%	1	4.5%
<b>TOTAL</b>	<b>78</b>	<b>100%</b>	<b>55</b>	<b>100%</b>	<b>23</b>	<b>100%</b>

Finally 71% of respondents accepted that being in the credit union had made it easier to save money. Again this finding was stronger among the less financially sophisticated respondents at Community CU. Although the sample is small, nine of those who had previously saved up rather than borrowing found the credit union made using credit much easier. Overall, these tables suggest that respondents prefer credit from credit unions because that it does not increase risks of over-indebtedness, it does not



encourage excessive credit usage, and it makes it easier to save money and manage their finances. On this basis it appears that members find credit unions an appropriate vehicle for the delivery of cautious borrowing.

## 8.7 Assessing Functionalist Claims

Functionalist arguments that foresee an inevitable decline in mutuality have two strands. First, that due to economic globalisation and the requirement for financial institutions to become larger to achieve economies of scale and remain competitive, smaller regional entities cannot survive. Second, mutuality is most effective if there is a personal relationship between the members. Unfortunately this is lost as mutuals grow and become more professional, resulting in a separation between the interests of members and management. These two trends make it almost impossible for mutuals to prosper since attempting to resolve the first inevitable causes the second. In chapter four the relative merits of these arguments were discussed, but much of the interpretation is based on conjecture regarding future of global economic development. Rather than add to the speculation the respondents were asked their attitudes of these issues.

**Table 8-41: Respondents' View on Whether Regional BS was too Small to Survive**

	Number of Respondents	Percentage of total
Strongly agree	2	4%
Agree	6	12%
Neither agree nor disagree	4	8%
Disagree	18	36%
Strongly disagree	13	26%
Don't know	7	14%
<b>TOTAL</b>	<b>50</b>	<b>100%</b>

Table 8-41 shows a clear rejection of the first functionalist interpretation, with 62% believing that Regional BS could survive. Many of the respondents made strongly worded references to the “*cult of bigness*” arguing that provided Regional BS was well managed it could continue to develop. Most preferred the immediacy of their relationship with Regional BS, often comparing it with the service they received elsewhere:

*“I am very loyal to them. They have very good customer liaisons and no queues”*

*“There should be something different to the banks. The banks are too powerful, everything is becoming too big”*

Another respondent believed that small organisations could be quicker to respond to market changes. There was also a rejection of globalisation with five respondents bemoaning the growth of multinationals:

*“I like things small, there are too many multinationals”*

Even among the minority who felt Regional BS would succumb to demutualisation there was no desire for change, rather a sad acceptance of the inevitable attached to sense of dejection:

*“It’s very good I wish it was a wee bit bigger, but long term it’ll just get swallowed”*

Not only was there minimal support for the functionalist attitude but the minority who believed the society could survive came from the middle classes, while the most vociferous opposition to change was from the working class. Consequently, without any cross-class popular support or acceptance the functionalist argument is actually part of a process of financial exclusion of the working class.

**Table 8-42: Respondents’ View on Whether National BS was too Large to Care about Individual Users**

	Number of Respondents	Percentage of Total
Mainly true	4	8%
Sometimes true	3	6%
Neither true or false	2	4%
Sometimes false	3	6%
Mainly false	38	76%
<b>TOTAL</b>	<b>50</b>	<b>100</b>

Respondents at National BS overwhelmingly rejected the second functionalist interpretation, with 82% believing that the society was not too large to care about

members (Table 8-42). Supporters of the statement were drawn from across the occupational classes, age and gender, indicating that these were members with specific complaints. However, three of the four who felt the statement was mainly true were also in favour in conversion to a bank, while 100% of those who considered themselves members believed it was false. Only respondents who thought they were customers supported the statement and this may indicate that as consumers they have different expectations than members. Indeed they may see no reciprocal relationship between them and the mutual. The findings would suggest that providing National BS continues to treat users as members it will survive, but this may be affected by the alien consumer culture. Once again demonstrating how mutuals are affected by capitalism rather than any evolutionary inevitability. Based on this small-scale research, respondents have rejected the functionalist accounts of the future of mutuals, therefore it is likely that other factors may be responsible for any transformation.

## 8.8 Thatcherism proposition

Rather than a process of economic inevitability, the synthesised embeddedness and a neo-Marxist interpretation of demutualisation emphasises the role of the capitalist state and the imposition of Thatcherism which made conversion culturally acceptable. To assess this claim respondents were asked a series of inter-related questions about privatisation culminating in the opinion of this change. Subsequently cross-tabulations can be performed to judge whether an acceptance of Thatcherism results in an endorsement of demutualisation.

**Table 8-43: Respondents' Awareness of the Privatisation of Nationalised Industries**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Aware	140	79%	45	32%	13	57%	42	84%	40	80%
Not aware	31	17%	7	13%	6	26%	8	16%	10	20%
Not sure	7	4%	3	5%	4	17%	0		0	
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%

Initially respondents were questioned about their awareness of the phrase 'privatisation of nationalised industries' and with the exception of Community CU over 80% had heard of the term. Further analysis indicated an age distinction with only 50% of those

under 30 with knowledge of the phrase, compared to 46% who had not. In all other age categories the response rate was in excess of 80%. Additionally a class difference was noted with 61% of the working class aware of the phrase (39% were not), but only 10% of the middle classes were not.

**Table 8-44: Respondents' Knowledge of Which Industries Have Been Privatised**

	Number of Respondents	Percentage of total
British Rail	57	32%
British Gas	46	26%
British Telecom	33	19%
Electricity Board	27	15%
Water Board	24	14%
British Steel/Coal Board	16	9%
Other	4	2%

Respondents were then asked to name industries which had been privatised and Table 8-44 shows that almost a third mentioned British Rail, compared to 9% who mentioned British Steel or the National Coal Board. All classes, age groups, and genders mentioned the privatisation of British Rail and all those who passed comment were critical of the process.

**Table 8-45: Number of Respondents Who Purchased Shares in the Privatised Industries**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Yes	35	20%	13	24%	0		15	30%	7	14%
No	131	74%	40	73%	22	96%	28	56%	41	82%
No response	12	7%	2	3%	1	4%	7	14%	2	4%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%

Once respondents' knowledge of privatisation was assessed they were asked whether they had bought shares in privatised companies. As Table 8-45 demonstrates only 20% had and most of these were members of Employee CU and Regional BS. This is reflected in the class analysis with only 5% of the working classes buying shares compared to 24% of the middle class, and 30% of Conservatives as opposed to 15% of Labour or Liberal Democrat supporters. In addition 36% of those in favour of demutualisation had purchased shares. Furthermore 32% of those who had received shares in other demutualisations also had shares in privatisations, compared to only 13% who had not, suggesting that the Neo-Marxist synthesis may have some validity.

**Table 8-46: Respondents' Attitude to Privatisation**

	Number of Respondents	Percentage of total	Employee CU		Community CU		Regional BS		National BS	
Strongly approve	15	8%	2	4%	0		10	20%	3	6%
Approve on the whole	33	19%	11	20%	2	9%	13	26%	7	14%
Mixed	58	33%	28	52%	6	25%	12	24%	12	24%
Disapprove	23	13%	3	6%	0		10	20%	10	20%
Strongly disapprove	21	12%	1	2%	3	13%	3	6%	14	28%
Don't know	27	15%	9	16%	12	52%	2	4%	4	8%
<b>TOTAL</b>	<b>177</b>	<b>100%</b>	55	100%	23	100%	50	100%	50	100%

The final aspect for the embeddedness proposition to be explored was the respondents' attitude towards privatisation. Table 8-46 shows the evenness of the division with 26% of the sample favouring privatisation and 27% against. This disguised the polarised positions within three of the mutuals. Clear majorities in support of privatisation of +16% at Employee CU and +20% at Regional BS contrasted with -28% at National BS. Only Community CU was equivocal and this is probably due to the lower awareness level of privatisation than at the other mutuals (see Table 8-43).

After conducting cross-tabulations, attitudes to privatisation divided along class, gender, political allegiance, ownership of shares, and ultimately attitudes to demutualisation. Among the middle classes 34% supported privatisation compared to 16% against, producing a net +28% support. In contrast only 15% of the working class supported privatisation and 39% opposed it. Consequently there is a 50% net difference in the attitudes of the classes towards privatisation. Similarly men (+23% net) were keener on denationalisation than women (-14% net). Unsurprisingly Conservatives endorsed the process (+33% net) while Labour supporters expressed their disagreement (-24% net). Support was also high among those who had purchased shares in privatised companies (+38%), compared to a net -10% for those who did not. Also those who had received a building society windfall were more inclined to support demutualisation (net +27), as opposed to those who had not (-9%). Finally the embeddedness analysis that the culture of privatisation established an environment for demutualisation was endorsed by the

cross-tabulation of attitudes about demutualisation. This showed that 51% of those who favour demutualisation also believed privatisation was a good thing, while only 24% disagreed. Of those opposed to demutualisation 28% expressed support for privatisation and 36% were against.

## **8.9 Summary and Conclusions**

The survey of mutual members has identified a class-based cleavage rather than a functional division due to size or type of institution. It is apparent that the middle classes place less value in reciprocity and display less loyalty to their mutual, engaging in a more commodified relationship. By contrast the working classes are strong supporters of a branch-based relationship and are committed to their mutual regardless of its size. With regards to demutualisation it is clear that the middle class have been the major beneficiaries and are more prepared to sacrifice mutuality providing they receive a windfall. Demutualisation detrimentally affects the working class because of the subsequent threat of branch closures, which are more preponderant in working class communities, and they are less likely to receive a windfall. Finally the survey has demonstrated a connection between the attitudes towards demutualisation and privatisation, supporting the embeddedness interpretation that demutualisation was an outcome of Thatcherism, rather than a function of the size of the mutual.

## 9 Attitudes of Active Members

Although most members are passive with minimal participation beyond voting rights a few have become more engaged. As discussed in chapter 3 this renewal in activity arose in the early 1980s and continues today. During these twenty years the objective of members involved has changed dramatically, but as will be discussed later, many of the arguments employed are universal.

Collective action by members was originally restricted to specific societies in response to a management decision, usually to merge with another society. This changed with the formation of the Building Societies Members Association (BSMA) in 1982, which is dedicated to the enhancement of democracy and management accountability to members. BSMA remains a relatively small pressure group with less than 500 members and communicates either informally or through a quarterly newsletter. Once demutualisation began a number of pro-mutual groups were formed, but again these were society specific. It was not until 1996 that a new industry-wide wide organisation was formed; Members for Conversion (MfC). Unlike BSMA and the pro-mutual groups these wanted to encourage more societies to demutualise. They furthered their objectives by signposting potential converting societies to interested members and supporting pro-conversion candidates and motions. Not only were MfC anti-mutual but also they used new technology and the internet as a means of communication. Initially this was via e-mail correspondence and later through public bulletin boards, once the Webmaster had agreed to manage the website. His revamp resulted in eight bulletin boards being established: New Campaigns, Carpetbagging Tips, Current Conversions and Takeovers, Rules and Regulations, Mutuality vs Conversion, Other Mutuals, Miscellaneous, and About this Website. MfC was a collection of individuals who converged on the website bulletin boards and with the exception of Michael Hardern, they all remained anonymous. Through using the bulletin boards they were able to communicate almost instantaneously reducing both the time taken to exchange information and the problems associated with a geographical spread of members. Gradually MfC metamorphosed into Carpetbagger.com and it is this group which are the predominant focus of this chapter. The term that denigrated opportunist investors was adopted as a badge of honour. It had the added bonus of being “newsworthy” and

“sexy”. The response of carpetbaggers themselves was to re-evaluate the original definition as: *“An astute investor, often of modest means, who spots brilliant investment opportunities”* (<http://www.carpetbagger.com/main.htm>). The website also reminded surfers that carpetbaggers were progressive democrats who had opposed the backward and racist sentiments of the Confederacy States. To them the metaphor fitted their analysis of the contemporary building society movement. They perceived themselves as the resistance fighters struggling against an antiquated system. This moralistic tone is central to what could be described as the carpetbaggers’ narrative, which I will discuss later.

After Carpetbagger.com other websites arose including COBS, Members First, and Bobbins. However, these either lacked bulletin boards or were spoof websites created by carpetbaggers who wanted to criticise pro-mutual support. The most infamous of these websites was the ‘Porkman’ which in its original form altered the Portman Building Society’s website (see appendix E).

In response to Carpetbagger.com pro-mutuals members coalesced around Save Our Building Societies (SOBS) and its eponymous website. For a short period in 1999-2000 SOBS had a lively bulletin board but this gradually degenerated and was eventually removed. SOBS continues to function, using the website as an electronic newsletter and issuing regular press releases. More recently, two further sites have begun: Mutual Members, who claim to be a pro-democracy site without a bulletin board. In many respects Mutual Members share the same philosophy of Members First and are supported by both BSMA, which now has a website, and Carpetbagger.com in that they believe in fair elections and the right of members to vote on conversions if they get sufficient nominations for elections. In contrast building society management remain unsure of Mutual Members motives, as to whether they are an extension of BSMA or a ‘stalking horse’ for Carpetbagger.com. The other group is Themoneybag.net, formed after a split within Carpetbagger.com. According to the Webmaster this arose when some participants became disenchanted after Totalise plc purchased a stake in Carpetbagger.com, believing that this compromised the integrity and independence of the website. An alternative perspective is that the key contributors were unhappy that they were not being financially rewarded, unlike the Webmaster, this was indicated by Dilbert when discussing the future of the website three months prior to the launch of



Themoneybag.net:

*"Hard to exploit though. Webmaster does not post very much and we regulars would not take kindly to someone else getting all the money so would disappear leaving just another SOBS type board."* (Dilbert, Re: my view of this ..., Current Conversions and Takeovers, 8 December 1999).

The ensuing dispute and resulting division was invariably bitter with invective being thrown on both sides. What aggravated the situation was the personality of the leader of the breakaway faction, known as Pilot/Dilbert whose robust promotion of carpetbaggers and demeaning of the views of pro-mutualists even disturbed other carpetbaggers. This antipathy was heightened when Pilot/Dilbert adopted a similar style when arguing with carpetbaggers loyal to the Webmaster.

*"Nothing against people making money [discussing Dilbert 0800 carpetbagging information line]. However, I am against unprincipled chancers fleecing naïve, unknowledgeable [sic] newcomers. Not good for our cause. The BS Corporate Swine fleece us daily and [you] seem to want to do likewise. Sorry to say this but, you are a notorious far right-wing Tory zealot."* (Harry the Haddock, Message to Dilbert, Current Conversions & Takeovers, 22 January 2000)

*"I'm not going to waste words on you. You have so many chips on your shoulder that, together with your haddock, you could open a fish and chip shop....A chancer – oh I see – you only respect 'no risk' investments like bagging I suppose. ... Carpetbagging is essentially a right of centre of activity – I want to see the end of inefficient mutualism which I see as part of socialism. If you are socialist carpetbagger then I suggest you mixing your metaphors (not to say your drinks!)"* (Dilbert, Postscript, Current Conversions & Takeovers, 23 January 2000).

Themoneybag.net attracted many of the long-standing contributors to carpetbagger.com and website 'hit rates' followed this transfer of intellectual capital. Eventually Carpetbagger.com was reduced to a small cohort of contributors with loyalty to the Webmaster and/or had been engaged in a dispute with Pilot/Dilbert. A few carpetbaggers used both sites, attempting to promote collective agendas and the transfer of information and news. In December 2000 Themoneybag.net briefly closed after Dilbert/Pilot terminated the service and publicly withdrew from carpetbagging. Although the sequence of events proved impossible to clarify completely it appears that Pilot/Dilbert felt unappreciated as he signed off with a missive critical of many

contributors<sup>8</sup>. Shortly afterwards the site recommenced and changed to broaden the appeal of the service beyond building society conversion to include general financial information, which Dilbert/Pilot was already developing, were introduced. A similar process was also underway at Carpetbagger.com, in both cases due in part to the decline in demutualisations and the failure of successive campaigns. As at September 2002 Themoneybag.net remained the busier site although both had less correspondence about demutualisation. In the media Carpetbagger.com remains the most cited site mainly due to the public profile of the Webmaster. Meanwhile a largely anonymous site Themoneybag.com has been unable to establish media image, although it has been at the forefront of campaigns to demutualise Standard Life.

This chapter will draw on the ethnography of the various bulletin boards of Carpetbagger.com, SOBS, and Themoneybag.net to complete the portrayal and analysis of mutuals in the late twentieth century. Specifically it will begin by examining whether these groups can be perceived as a New Social Movement within mutuals, this will include reviewing the roles of key participants and their attitudes and whether this is broader than the narrow confines of demutualisation. In the following section the use of the internet will be assessed and in particular the effect of time and space distancing on local building societies. Thereafter the opinion of website users regarding tenants of mutuality will be discussed.

## **9.1 Carpetbaggers – A New Social Movement?**

Chapter 3 outlined the evolution of carpetbaggers and their transformation from a sole campaigner in 1996 to a highly discussed pressure group by late 1999. Though carpetbaggers' stated objective was the conversion of mutuals, they adopted the language and narratives of conventional New Social Movements (NSM). It is my contention that just as NSM seek the reorientation of capitalist society, so carpetbaggers perceive themselves, however inappropriate this may seem to their critics, as in the vanguard of changing mutual societies. It should not be assumed that all carpetbaggers

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<sup>8</sup> Dilbert's final post was withdrawn before I could examine it, but was discussed extensively in the following weeks by other carpetbaggers.

share the same ideological motivations as there are many degrees of engagement, but for the most committed there is disillusionment with mutuality, with those in authority of mutuals, alongside strong libertarian attitudes.

### 9.1.1 Personalities

Carpetbagging may have begun with one leading figure but his continued prominence within the media contrasts with the views of many long-serving carpetbaggers:

*“Dear Hacks,  
By now you will have realised our general consensus on Michael Hardern .....whilst he showed us the way forward, he didn't lead us on the path towards our aim. Hardern is currently nothing more than a media puppet.”* (Posted by Cherry & Whites Bagger, titled: To Central Hack City, BBC et al; 14 December 1999)

For leading carpetbaggers Hardern's legacy was contradictory giving the 'movement' publicity but his erratic behaviour became an increasing embarrassment. With the departure of Hardern Carpetbagger.com lacked a public spokesperson until the Webmaster volunteered in the autumn of 1999:

*“It has to [be] said that whilst there are a lot of people on the site and they've all got views and opinions and a lot of enthusiasm, when it comes down to it there are very few people that are willing to actually do something. In particular put their head above the parapet and go into the public eye and say I'm the new king of the carpetbaggers or whatever it is. Which actually sent, me and another regular by the name of Ord, ... we discussed late in the autumn what are we going to do we've got the building societies AGMs coming up, the top ten, are there are going to be any campaigns, whatever, and I said well look I think we should do these three that's my view, Portman, Skipton and Chelsea and if we can find two other people to figurehead the campaigns at two of those societies then I'll do the other one. And we went back to the regulars who had been so appalled at you know why I supported Hardern in the first place and nobody was willing to do it, we couldn't find a single person to do it. Now I wasn't very keen to become the public figure for all three because I knew that would attract a lot of publicity and I was in working out a contract at the time and meeting a lot of people and knew that the media and papers so I thought right I can't be doing with any this stuff. At the end of the day it became a choice between going public and taking all the flak that comes with that or just letting the whole thing collapse and I wasn't willing to do the latter.”* (Interview with the Webmaster)

The only other carpetbaggers that are publicly known were Naunton-Doe, Muir and Major. Major led the successful campaign to convert Bradford and Bingley in 1999, and although he was not a regular contributor, the website supported his motion.

Similarly Naunton-Doe has used Carpetbagger.Com and Themoneybag.net to secure nominators for elections at the Chelsea and the Nationwide. The remaining carpetbaggers prefer to remain anonymous and adopt a pseudonym to protect their identities from “watching” building societies. During the fieldwork requests were made for carpetbaggers to be interviewed, but only the Webmaster agreed. Although the anonymity of carpetbaggers causes difficulty when attempting to verify statements, the length of the research period enabled me to identify the key personalities on the websites. The predominant carpetbagger is known as Ord and has been a regular contributor since 1997. Ord posts virtually everyday and is recognised by most carpetbaggers as the intellectual leader of the site. Less emotional than many contributors Ord posts often involve an analysis of a building society’s financial performance, followed by a critique of their current mutual status:

*“Directors’ pay 1998 as a % of assets. Spot the odd one out. Nationwide 0.0051%; Bradford & Bingley 0.0053; Britannia 0.0061%; Yorkshire 0.0109%; Portman 0.0272%; Coventry 0.01075%; Skipton 0.0210%; Chelsea 0.0244%; Leeds & Holbeck 0.0164; I think that the Portman directors will come to regret the decision they took today.”*  
(Ord, Spot the Odd One Out, New Campaigns, 30 December 1999)

The Webmaster claimed there were between 10-15,000 people who visited the website every month, the vast of majority of whom could be described as carpetbaggers. Most users ‘lurked’ on the website, so correspondence was limited to a core group of about 30, with others making smaller contributions. Using this data and months of observation I have classified carpetbaggers into five categories.

1. Leaders – Ord, Webmaster, Pilot/Dilbert
2. Key contributors – Act Mutual or X, Miss Marple, McBag A’Lot, Danbert Nobacon, Robert Shilling/Building Society Bob
3. Occasional contributors – Ten Passbooks, Walter Plinge
4. Information seekers – individuals usually asking a specific question
5. Lurkers – The vast majority who make no contribution. They may return a proxy form during an election campaign, but usually their support is passive.

These categories are flexible and people may move between the groups as their circumstances and participation levels alter. The leadership has remained static since

1999, until Dilbert/Pilot's alleged 'retirement' in December 2001. Key contributors regularly change with Miss Marple ceasing contact in early 2000 and Danbert Nobacon beginning shortly after. Of course it is possible that a contributor may change or operate simultaneous identities, a practice often used by Robert Shilling/Building Society Bob, along with 'jokes' about the apparently close relationship between these two pseudonyms. Additionally there are historical posters that receive the occasional valedictory comments. These are either founders or former key contributors, most no longer post or make occasional interjections. Examples of these include: Hawkeye, Sarah Count, Tim, Lady Bagchester, Two Bags, Beccles, and Ali Bagger. Of the original commentators only Ord has remained continually involved although Ali Bagger and Beccles have returned in the last year.

Usually the contributors were exchanging information and giving advice about fresh bagging opportunities, and regulars discussed the availability of 'bags' in towns they were visiting. More light-heartedly some exchanged tips on how to store passbooks, and which passbook cover was the most attractive. The websites users intra-advisory services were supplemented by relevant news items, which were often 'cut and pastes' or links to other websites.

*"below is from:*

*[http://news.bbc.co.uk/1/English/business/newsid\\_544000/544649.stm](http://news.bbc.co.uk/1/English/business/newsid_544000/544649.stm)*

*Interestingly, the Beeb seems to be portraying demutualisation in terms of economic determinism, rather than nasty evil greedy baggers on the rampage ....:-)"*

Occasionally disputes arose, most inflammatory are accusations that their activities are immoral. The best example of this was the 'Weary Bagger' discussion that was partially reproduced in the Daily Mail:

*"This whole discussion area strikes me as rather distasteful. I'm not in favour of idiots like Disgruntled rampaging around bringing discussion down to the level of the playground, but sometimes I think I might actually prefer that to the stomach-churning, self-righteous hypocrisy I've seen here....the fact can't be avoided that what we are doing is parasitic, and no amount of sanctimonious debate on democratic rights and fat-cat mutual directors can change it. We aren't doing this for the greater good of the country. We're doing it to get something for nothing, and we should have the courage to hold our hands up and admit the fact. And, to tell the truth, we should all have enough of a sense of shame about this to try to get on with it as discreetly as possible. The sight of the likes of us raucously demanding large sums of money we've done*

*absolutely nothing to earn can only serve to disgust most people.*” (Weary Bagger, A Little Honesty, Mutuality vs Conversion, 3 January 1999)

In responding to Weary Bagger JD believed his investments were made to secure a better old age as he had been made redundant in his 50s. Weary Bagger acknowledged this believing: *“the real world is a hard place, we can all use the extra, and top businessmen are on the take all the time..”* (Weary Bagger, A Little Honesty, Mutuality vs Conversion, 3 January 1999)

As the criticism grew, Weary Bagger defended the original statement by classifying carpetbaggers: Those that invest the minimum amount and *“keep their fingers crossed for a windfall”*. Another set who Weary Bagger believed were the majority who invested prudently, while being aware of windfall opportunities. Both of these practices were *“slightly cynical”* and *“hardly a shinning advert for the nobility of the human spirit.”* However, Weary Bagger reserved the most strident criticism for *“the scum”*. They are overtly cynical *“but they aren’t content to leave things there – I mean those who then have to gloat about what they’re doing as if it’s something to be proud of, bragging about wiping the smiles off the faces of Building Society staff who are merely doing a job that they stand a pretty fair chance of losing: and those mealy mouthed hypocrites who rant about their “right” to take part in democratic elections to oust corrupt Boards of Directors, as if they are crusaders for integrity, when all they are really interested in is a tidy personal profit.”*(Weary Bagger, A little honesty, Mutuality vs Conversion, 8 January 1999).

Nor was the distaste for the more money motivated carpetbaggers isolated to Weary Bagger, but those who raised such issues were invariably accused of being a building society stooge.

Frustration with this paranoia was exemplified in an exchange beginning with Dilbert accusing G. Gecko of being a ‘plant’:

*“Whenever a contributor to this site expresses any sort of qualm about carpetbagging, you can be sure the accusation “plant” is never going to be far away... Ultimately, the arguments for conversion seem to me to carry the greater weight, and it then becomes a matter of mere financial prudence to try and make sure that my family and I will be amongst the beneficiaries when the inevitable happens. ... That doesn’t change the fact,*

*however, that those who take carpetbagging to its most cynical extreme (the £100 in as many societies as possible brigade who don't give a damn about the interest rate being earned or whether conversion will actually benefit anyone other than themselves) are never going to win any popularity contests. There's no point in denying this fact, which is why someone posts it every so often – and you don't have to be a plant to do so.”* (ALKIADT, For goodness sake, New Campaigns, 8 January 2000).

*“Most carpetbaggers are aware that the open flouting of any “greed is good” statements can only be used to harm our cause. Therefore they tend not to make them. Those people that do will continue to be mistrusted by me as BS plants. (Or just plain stupid)*  
*The choice of handle is usually a giveaway. If it seems designed to offend when we have a case to win in the press and public arena, then we can do without such people.”* (Ord, For goodness sake, New Campaigns, 8 January 2000)

These exchanges demonstrate the sensitivity of carpetbaggers to any hostile criticism and a self-created belief that they are an oppressed group under surveillance by building societies. This necessitates the requirement for assumed identities as they ‘fear’ that building societies will expel them if they are ‘exposed’. Evidential support for this came when the Britannia terminated the membership of the carpetbaggers who nominated Michael Hardern for director in 1999, a practice later followed by Leek United and the Portman when rejecting demutualisation proposals. Additionally most carpetbaggers were pursuing membership with other building societies and wanted to avoid harming their chances by public disclosure.

### 9.1.2 How the website operates

Table 9.1 shows that Carpetbagger.Com usage peaked during the Portman/Skipton/Chelsea conversion proposals at the turn of the millennium. ‘Hits’ to the site rose from 22,837 per day at the end of October 1999 to peak at 73,570 during week commencing the 16 January 2000, before declining slightly to approximately 58,800 at the end of February. Unfortunately subsequent data was not available, although the establishment of Themoneybag.net resulted in fewer contributors and is therefore likely to have less hits.

**Table 9-1: Usage of Carpetbagger.Com between November 1999 – February 2000**

	Total 'hits' to the site	Total successful requests for pages	Average successful requests for pages per day	Data transferred	Average data transferred per day
November 1999	1,174,198	695,153	23,172	8,110 Mbytes	276,858 kbytes
December 1999	1,695,315	1,038,277	33,492	10,396 Mbytes	343,426 kbytes
January 2000	2,027,037	1,235,890	39,868	12,453 Mbytes	411,391 kbytes
February 2000	1,687,422	1,003,302	34,597	10,007 Mbytes	353,376 kbytes

Prior to the winter 1999 campaign most discussion concentrated on advice. While building societies were converting most contributors were content to use the website as an electronic information service. Its politicisation began when Michael Hardern was defeated in the Nationwide directors election of 1998. Amid claims of underhand practices, carpetbaggers began to organise and discuss tactics and strategy. An early victim of this transformation came when Michael Hardern was deposed. According to Richard Yendall regular contributors threatened to withdraw from the website, even going to the extent of launching a temporary service, unless Hardern's access ended. There was no democratic process involved as carpetbaggers had, and continue to have, no constitution or rules. Instead they were a loose confederation of interests and therefore could responded swiftly, informally and flexibly to any given crisis. Such an event occurred in November 1999 when the government announced changes in secondary legislation resulting in raising the number of members required to propose motions from 50 to up to 500 in the largest societies. The immediate response was despair with Ord announcing his retirement:

*"Congratulations to SOBS/Bob on an excellent lobbying job. You've effectively sunk the BS Act of 1997 without trace. It looks like we'll have to concede defeat. C'est la vie. All's fair in love and building society wars. I may be contacting people to send them a Christmas card as final gesture before bagging enters the History books. In the meantime we'd better all hit the bottle and keep our fingers crossed that Santa exists after all. You never know."* (Ord, Calm down everyone, New Campaigns, 13 November 1999)



Rather than ending carpetbagging the final sentence signalled its transformation into a type of NSM. The website became a communication centre for the campaign to secure sufficient supporters for conversion motions before the 1st December deadline. Press releases were issued and pleas to carpetbaggers were made by their 'leaders' and other prominent contributors. To ensure the veracity of nominations members were asked to forward a copy of their passbook with their proposal form. After ten days of campaigning the website had secured over 300 nominators at the Chelsea and Skipton and 500 at the Portman. Understandably carpetbaggers were delighted and Yendall received 21 postings from contributors offering their congratulations appreciation. At the same time the regulars began to realise the importance of getting organised and Ord asked regulars to get in contact and start writing to the press.

Despite the success some carpetbaggers remained unhappy that the motions included a 10% donation of windfalls to charity, exposing the difficulty of running a campaign where the objective is personal aggrandisement:

*"You know, I'm getting pretty sick and tired of this "giving windfalls to charity thing". Giving to charity is meant to be a voluntary act.*

Windfalls should go to the folk that bother to get off their backsides and go for it. If they want to give some or all of it to charity later that's their business.

*It's the old Brit thing again...anyone that makes a penny more than his neighbour is a money grabbing pig."* (Carpet Pilot, The charity thing, Carpetbagging Tips, 5 December 1999)

But it was the rejection of the motion by the Portman and the subsequent adoption of them by the Chelsea and Skipton on a technicality that caused the most disquiet.

Contributors were stunned at these unexpected events and some began to question the future of carpetbagging: The more thoughtful contributors reminded others that carpetbagging was a long-term activity and investment should be planned accordingly:

*"It's a patient game. Long-term economic forces are on our side. Short term sentiment (and abuse of the reserves) mean that some of the larger BSs are on the front foot at the moment.....So you certainly can't afford to assume that your bags will become windfalls. BUT if you've got time on your hands, they might."* (Ord, Reply from Ord, Miscellaneous, 29 December 1999)

With the expulsion of members from the Portman the website had its first martyrs and had a cause beyond windfalls, an interpretation shared by the Webmaster:

*“But yeah it has moved on there are various motives behind why people do it but they basically see it as a cause, a campaign, and one they enjoy fighting.... You know in some ways when we lose a battle like when we lost at the Portman I’m not that bothered because the battle goes on...I do genuinely feel there is something very wrong here and I just can’t even if I wanted to – I’m not sure I could bring myself to walk away from it, because it just annoys me that a, what these directors are saying and b, the sort of tactics they are using to silence other people. So the ultimate objective is actually not to convert the societies it’s to get what we regard as a fair vote.”*

Simultaneous to this politicisation of the website, many regulars were increasingly upset with the extent of disruptive posts, usually by those claiming to support mutuality.

Over time lists were drawn up of these contributors and regular users issued warnings to new visitors. Others complained that the site was “*over run with rather a lot of idiots*” (Fox, Disruption, About this web site, 14 December 1999). Responding Miss Marple and Beano the Bagger believed that disruption was inevitable on a website where people disagreed with each other and that contributors come and go in waves, leaving after they have secured the information they want or the discussions become repetitive. However, Dilbert’s outburst was a precursor to the eventual split between carpetbaggers that resulted in the formation of Themoneybag.net. At the time Dilbert cited the Webmaster’s sale of the website as a motivating factor in the establishment of Themoneybag.net, exposing carpetbaggers sometimes contradictory attitude to capitalism. This was apparent in November 1999 when ‘Newbagger’ suggested floating carpetbagger.com and securing income through selling advertising space on the site; he received a curt response from Miss Marple:

*“Thank you, - but No Thank You!!!*

*It is a pleasure to have a site WITHOUT advertising.”* (Miss Marple, Re: Message to Webmaster -> Possible floatation of Carpetbagger.com? New Campaigns, 29 November 1999)

Other contributors also preferred the collective approach of Carpetbagger.com leading to McBag T’Lot to speculate that there was no advertising because “*there is such a thing as MUTUALITY but we don’t see it even if it is staring us in the face*” (McBag T’Lot, Doesn’t Webmaster realise. Current Conversions & Takeovers, 8 December 1999). As was seen earlier in the chapter, even Dilbert, the most Thatcherite of contributors, used the neo-Marxist discourse of exploitation to justify opposition to selling the website. After Yendall had sold the website this complaint resurfaced as an

issue of intellectual property:

*"... this site would be NOTHING if it were not for those regular old hands who were posting here daily, through most of the evenings. They have made this site what it has become, not [Webmaster]. These old hands put together the FAQ's which you could always find on the site to assist the newbies on their first visits....I do not see why I, or the rest of us, should bolster what has become a commercial concern to line the pockets of the honourable [Webmaster]" (Jim, This site and the other one, Miscellaneous, 26 April 2000)*

Disputes regarding ownership of the website ultimately resulted in Dilbert/Pilot creating Themoneybag.net. This appeared to attract more experienced carpetbaggers, although some, notably Ord communicated on both sites. Among newer users the division centred on their attitudes towards the censorship of disruptive or unwelcome posts, with Dilbert/Pilot seen as dictatorial compared to Webmaster's view that a more relaxed approach was preferable:

*"Great to hear your negative view on censorship. I had one post deleted...I think your stance on the issue will prove more popular than the one held by Herr Pilot" (Sir Michael Mouse, Questions about my Totalise involvement, 20 April 2000).*

Finally, throughout the period of observation a small group of 'elite' carpetbaggers maintained an exclusive e-mail group:

*"When cb.com become disruptive – the regular baggers formed a private mailing list to keep in touch, the list did not include RY [Richard Yendall] as he was not one of the actual bagger activists at that time. That mailing list still exists and RY is not a member of it. About 45 people are on the list and it has spawned a share tips mailing list since then. Now that we have our own web site, the list has become less important but it's still alive and well." (Pilot, Richard (CB.com) has sold us all out!) Themoneybag.net, 18 April 2000).*

Though many regulars were aware of the 'inner circle' they were concerned that their withdrawal from public discussion would adversely effect new carpetbaggers:

*"I thought the whole point of this site was to encourage new baggers with advice/facts/guidance. When I first came here I was a total newbie and don't think I would have started without this site. If all the 'bagging gods' publish in secret, it would be a great loss for the rest of us!" (Bags of fun, Secret Site, Carpetbagging Tips, 26 October 1999)*

Despite the use of new technology the website experienced a pattern of growth, division, and decline that characterise many protest movements. Nor was equality of access evident, with an elite group maintaining a strict demarcation between themselves and other carpetbaggers.

### 9.1.3 Main arguments employed

The predominant arguments used by carpetbaggers incorporate two narratives, one of economic determinism and the other of anti-democratic behaviour. These discourses are used in tandem to argue that building societies' economic performance will result in their decline in an increasingly competitive environment and this should be welcomed as they no longer act mutually, which carpetbaggers see as the defining component of mutuality. Evidence of this combined narrative can be clearly identified in the following quotes from Ord, Act X, and Pilot. Ord was responding to a request for ten good reasons for demutualisation while Dilbert was dismissing the arguments of a pro-mutualist:

*“directors having to earn their pay rather than jut sitting on their backsides & rake in salaries of £350,000...economies of scale from mergers and consolidation which BSs don't like to do because directors' fees suffer...directors will become accountable to shareholders whereas at present they are a law unto themselves...BSs are in the rearguard when it comes to technology...the mutual dividend will be always be wasted on inefficiencies and directors...Building societies have lost track of their roots & don't listen to members. They are affront to original mutual idea of the co-op, friendly society, burial society and early trade unions. They are a disgrace to any democratic country. The Chartists& co-op pioneers of Rochdale would have wept to see the Portman directors in action...The most competitive mortgages & savings accounts come from non-mutuals...BSs have kept up with the competition so far by running down their capital ratios (and therefore members' windfalls). At the moment the only people whose finances are being revolutionised by BSs are the BS directors themselves.” (Ord, Members will be better off, Mutuality vs Conversion, 1 February 2000)*

*“Conversion is inevitable, as the best rates in the future will come from organisations that can grow by acquisition, adapt in a rapidly-changing market and invest heavily in new technology. This process his already underway; nearly 200 societies have converted or merged since 1980....Directors' arguments against these resolutions may have more to do with protecting their position and salaries than a belief in mutuality...The arguments mutuals are better because they don't pay dividends is simplistic and irrelevant.” (Dilbert, Portman, Chelsea & Skipton – Another Plant!! Current Conversions & Takeovers, 9 January 1999).*

The power of the 'inevitability' narrative establishes a tautological response to any

questioning of the carpetbaggers argument:

*“It was a surprise for me to see that most of the big lenders are banks not building societies, and the Building Societies account for less than 20% of the market. It looks like the Building Societies have been out-evolved, and are set to fade into obscurity like the British Empire.”* (Lisa, Like the British Empire, Mutuality vs Conversion, 12 January 1999)

*“Yes, but how many of the top lenders are ex-building societies? The top two for start. It seems a bit unfair to approve of a movement which forces mutuals to convert into banks, and then criticise the remaining mutuals for having a smaller market share!”* (Chris, Like the British Empire, Mutuality vs Conversion, 13 January 1999)

When the remaining building societies seemed intent on staying mutual, carpetbaggers argued that their own activity had preserved the sector and help it rediscover mutuality:

*“Yes, in fact the possibility of windfalls is without doubt responsible for a large proportion of the most profitable investment in many building societies. We put in large sums at low interest rates. So we are keeping many of them in business. If there were no hope of windfalls – huge amounts would be withdrawn and placed with Egg etc”* (Dilbert, A story for you, New Campaigns, 6 January 2000)

For some carpetbaggers such as Dilbert and Next\_2001, there is a strong ideological justification for conversion:

*“Mutuality is like the council owning your house on your behalf – not really the ideal situation is it? ...[socialism] is outmoded just like mutuality ... .”* (Dilbert, Scottish Widows, Current Conversions & Takeovers, 24 November 1999).

*“Consider the miners argument was:*

- 1) by doing away with UK coal the cost of coal would go up as there would be less competition.*
- 2) the industry deserved special protection because without it they and many of their relatives would lose jobs.*

*Well fancy that I wonder how many of the pro-mutuals supported the miners argument?”* (Next\_2001, The Debate, Mutuality vs Conversion, 10 January 1999)

Finally, a less commonly expressed opinion but more often implied perspective is the comparison between carpetbaggers own experience and that of wealthier members of society, including building society directors. Usually this argument involves abusing ‘fat cats’ while questioning why the small investor is considered as immoral:

*"I was actually made redundant by a finance house so I have absolutely no compulsions in making a legal gain from this sector...I suggest that if a trader/marketmaker/salesman on the investment wing of a building societies uncovered a quick way of investing the society funds, risk free, chance of big results – then he would probably have been considered for a promotion, if a similar person from an investment bank or similar had earned his company this type of profits he would probably been made a partner/director/vice president etc so why does the industry reward their 'in-house carpetbaggers' then have the gaul to vilify the outsiders." (JD, Has this been said before? Mutuality vs Conversion, 3 January 1999)*

## **9.2 Mutualists – Resistance or Collaborators?**

Unlike carpetbaggers it is more difficult to ascertain the motives of mutual supporters (hereafter called mutualists), as there were fewer of them engaged in discussions on bulletin boards and it is impossible to clarify completely their relationship with building societies. Were they as carpetbaggers argued, the 'stooges' of building societies, or were they a genuinely independent interest group? What makes their position more ambiguous is whether they are supporting an existing power structure or resisting an onslaught from the dominant capitalist culture.

### **9.2.1 Personalities of mutualists**

The most prominent mutualist was Bob Goodall who acted as the figurehead and media contact for SOBS. Bob's infrequent communications were usually restricted to defending slurs made by carpetbaggers against his reputation. The level of invective reached a pinnacle when a carpetbagger specifically created a website to denigrate Goodall, which demanded that he was "*wanted dead or alive*" "*for crimes against the greater carpetbagging community*" ([www.Michael\\_mouse3.tripod.com](http://www.Michael_mouse3.tripod.com)). Another tactic of carpetbaggers was to impersonate Goodall on the SOBS bulletin board and there was no evidence of him reciprocating this behaviour. However, a number of other contributors including Lesley, GMC, Greg, and Margaret wrote extremely disruptive posts on the Carpetbagger.com website, which often provoked equal hostility from carpetbaggers.

There were a number of occasional contributors who challenged carpetbaggers, such as Chris, however, only VoR and Dave in Deutschland (Debagger Dave) combined longevity with intellectually coherent arguments. VoR was posting prior to the website

observation and appeared to stop contributing during the summer of 1999. VoR's approach was to concentrate on trying to persuade carpetbaggers to consider the implications of their activities:

*"... No amount of words from my keyboard are likely to stop everyone from doing what they want. But that's no reason to give up. Far from it...If I can't stop people hijacking the BSs for their own personal gain then at least I can ensure that they are not allowed to do it in a conscience-free manner. I don't believe that ANYONE has a right to wash their hands of the consequences of their actions and this is what a lot of carpetbaggers are effectively doing at present."* (VoR, " year wait for B&B, Current Conversions & Takeovers)

Dave in Deutschland/Debagger Dave only began posting in January 2000 when carpetbaggers targeted Standard Life and initially adopted a strident approach. This culminated in almost ritualistic debates, often abusive, with Danbert Nobacon. Gradually this faded as he concentrated on questioning the logic and coherence of carpetbaggers' arguments. Like VoR, Dave in Deutschland wanted to persuade carpetbaggers to think about their actions, but openly admitted that he argued from a socialist perspective:

*"Well for me it's principle thing. I'm an old fashioned socialist – I make no bones about it, I believe that society should be structured for people and not governments or financial institutions....That's why mutuals were introduced – a way to hit back at the (then very real) injustices of the "system". ... I don't see why I should have to sacrifice the profits on my policy and principles which I hold dear just so somebody else should make a short term gain."* (Dave in Deutschland, Carpetbagging, Mutuality vs Conversion, 16 February 2000)

## 9.2.2 How the website operates

Created as a campaigning organisation SOBS.org operated very differently from Carpetbagger.com which evolved from a information service. Consequently the website at SOBS held less import. Most effort was placed in drafting press releases of which 104 were written between the middle 1998 and April 2000. This compared to 12 by Carpetbagger.com in the same period. With the exception of a rudimentary bulletin board most of the information on the website was in read only format. Nor did Goodall engage in any monitoring or 'cleaning' of the bulletin board and as a consequence was often reduced to meaningless exchanges of invective between carpetbaggers and mutualists. For mutualists such as VoR and Dave in Deutschland they avoided the

SOBS website preferring to post on Carpetbagger.com. Eventually the extent of the disruption forced Goodall to warn contributors:

*“Sometime ago, I posted a message asking that all contributors refrained from using foul language and entering into personal abuse on this forum. Unfortunately this situation has got even worse. ... This forum is designed to stimulate debate on the future of mutuality, nothing else. This is the last warning. If matters do not improve I will be forced to introduce more draconian measures.”* (Bob Goodall, Site Disruption – Last Warning, SOBS.org, 11 December 1999).

Unfortunately the situation continued and Goodall closed the bulletin board in March 2000.

### 9.2.3 Main arguments employed

With the few mutualist campaigners accessing Carpetbagger.com there has been less time and opportunity for a robust positive case for mutuality to develop. Instead the focus has been on criticising the contributions of carpetbaggers. Unsurprisingly mutualists main argument centres on the perceived greed of carpetbaggers, dismissing carpetbaggers’ rhetoric as sophistry, designed to deflect from the issue of personal aggrandisement:

*“No one ever says that carpet bagging is illegal or receiving windfalls is immoral. What a lot of people object to is greedy individuals using a democratic process to force a business into a state it does not want to adopt. You do not want these BS to change because you believe it best serves that BS’s business but simply to make a fast buck and hang the consequences.”* (Steve, Anti-carpetbaggers, Current Conversions & Takeovers, 4 January 2000).

What frustrates mutualists is that carpetbaggers are under no obligation to remain members yet they use a democratic principle within mutuality to defeat the concept of mutuality:

*“Why don’t you lot just leave us alone??? If you think banks are so great, go to a bank....In the meantime, stop trying to dent the rest of us our choice of a building society. You may think we’re wrong, but don’t take away our choice. I realise this plea will fall on deaf ears. For you lot, sensible financial planning comes second to trying to bully your way to a fast buck.”* (Chris, Hands Off, Mutuality vs Conversion, 5 January 1999)



Finally, when mutualists argue that conversion will result in job cuts carpetbaggers state that building societies are supposed to be for the members and not the staff, and job insecurity is a fact of life:

*“Do any of you greedy opportunists actually care about the damage you will do to the small BS that you are attempting to de-mutualise? You must know that they will not be able to survive when competing against the big boys. This will ultimately result in take over and resultant loss of people jobs and livelihood. Do any of you care a toss. I bet the answer is a resounding ‘NO’”* (anonymous, Do you lot care about BS job losses? Miscellaneous 4 January 2000)

*“But we DO care. That’s why WE are trying to SAVE OUR BUILDING SOCIETIES, not by preserving them in some sort of festering museum pieces, but by allowing them to evolve naturally into modern efficient PLCs who ARE accountable to their owners.”* (‘Bout Ye! Do you lot care about BS job losses? Miscellaneous 4 January)

*“Job losses? Oh dear how sad. Welcome to the real world of downsizing, and the opportunity for early retirement at 50 on half pay. Yipeeeeeeeeeee!!”* (Dr Who, Do you lot care about BS job losses? Miscellaneous 4 January 2000)

This final quote once again reflects the insecurity and feeling of hopelessness experienced by some carpetbaggers, alongside their ambiguity towards capitalism.

### 9.3 Campaigning on the Internet

There was a clear contrast in the campaigning approach of SOBS and Carpetbagger.com. While the former used the internet as an information source and adopted practices of other protest groups, Carpetbagger.com used the internet to build and sustain its community. Without the internet it is unlikely that carpetbaggers would have been so effective and they definitely would not have been as coordinated. The importance of the internet as a virtual shared space for carpetbaggers became apparent to the wider public with the successful campaign for conversion motions in the winter of 1999.

*“It is also the first example I can think of the power of the internet being deployed effectively in the UK, with the possible exception of the city riots earlier this year where the internet was mentioned, as being used in the organisation.”* (bigger bagger, my view of this..., Current Conversions & Takeovers, 8 December 1999)

To campaigning groups the internet enables the swift transfer of information and ideas without relying on the conventional media which carpetbaggers was considered as controlled by vested corporate interests. What Carpetbagger.com have demonstrated is that formalised structures predicated on local power networks can be rendered irrelevant if the technology is employed to overcome spatial isolation, a conclusion that ActX quickly realised:

*“The internet has threatened building societies before – internet banks. It threatens building societies again – carpetbagger.com. Here is another case of new technologies altering the power structures in societies, allowing grass root dissent to be channelled through regulations that in the past were unlikely to be usable due to the inability of grass roots individuals to organise in a large enough way.”* (ActX, A note to any journalists reading, Current Conversions & Takeovers, 27 November 1999)  
Limits of internet

However, one weakness of internet campaigns is the absence of clear hierarchies, especially in an issue where individuals only shared a desire for personal gain. This was acknowledged by Dilbert when explaining why contradictory posts are often made:

*“Since we are only a loose-knit group of members who communicate via this site and Email, it is not always the case that our communications both internally and externally are perfectly clear.”* (Dilbert, Why it was cut from seven to three, New Campaigns, 23 November 1999)

It was only when the Portman expelled members that a collective issue arose that attracted interest in a more coordinated approach. Carpetbaggers were unable to maximise this opportunity partly because contributors would have to become more overt and possibly publicly identify themselves, and without a campaigning culture the ‘movement’s’ leadership could not motivate their potential supporters. Contributors suggested either a legal challenge or called for a special general meeting at the Portman but there was no fundraising capability for a ‘fighting fund’. This never materialised partly due to the rift within the leadership and partly because of a reluctance of carpetbaggers to fund a campaign.

Subsequently carpetbagging websites have broadened their appeal by introducing discussion boards on other financial issues, while maintaining the original campaigning

websites. With the failure of conversion proposals the remaining contributors have begun to endorse the pro-mutual BSMA and Mutual Members believing that democracy must be imposed on building societies before carpetbagging can recommence. This tactical shift has been accompanied by an organised private bulletin board for the expelled Portman members. The survival of the campaign is testament to the tenacity of carpetbaggers, but the ease in which expelled members can remain involved demonstrates how the internet has been employed to sustain the 'movement'.

## 9.4 Understanding of Mutuality

Not only have carpetbaggers developed a deterministic narrative regarding building societies, they have also constructed definitions of mutuality which they believe have been abandoned. Economically they argue that mutuality should result in better prices for members, but by citing internet savings accounts, they 'prove' that mutual are uncompetitive. They are supposed to serve the poorest members of society but *"there has for some time been a disconcerting contradiction between the ideology of mutuality and the actions of some building societies in defending their mutual status. High minimum opening balances (£2500+ in many cases) means mutuality is no longer for all, as originally intended, but for the affluent."* (Funk Soul Bagger, A story for you, New Campaigns, 7 January 2000). Finally they are supposed to behave mutually but the behaviour of directors militates against this:

*"Mutuality does have a place in the 21<sup>st</sup> century UK, but not whilst it is hijacked by some of the arrogant vermin who run some BS's in contempt of their members."* (Danbert Nobacon, Costs, New Campaigns, 8 February 2000).

However, carpetbaggers' assault on mutuality also extends to inverting its key components and principles.

### 9.4.1 Trust

For some, building societies might as well become banks because they are equally guilty of exploiting their customers by indulging in *"sharp practices"* (Parker, A little honesty, Mutuality vs Conversion, 4 January 1999).

*“If the Building Societies weren't so busy ripping off their customers and making such huge profits over the years, selling useless endowments, having hidden terms in their mortgages etc...maybe carpetbaggers would be slightly more sympathetic. It's payback time!”* (Dish the Dosh! A bad day at the office for ALL carpetbaggers, Carpetbagging Tips, 5 December 1999)

This breach in trust between boards and members predated carpetbaggers and probably arose during the housing recession of the early 1990s. Rich Bagger accused building societies of making excessive profits during this period and failing to assist fully their members. Subsequently carpetbaggers have highlighted mismanagement of non-core activities, such as estate agents, and in particular Britannia's sale of Britannia Life which lost £9 million in 1997, despite receiving £100 million of investment and was sold £54 million below its market value (Ord, Britannia Life, New Campaigns, 12 December 1999). Yet no director or manager resigned over the Britannia Life 'fiasco', which carpetbaggers argued demonstrated that directors could behave with impunity due a lack of accountability.

However, the carpetbaggers' strongest message was that directors personally benefited from mutuals at the expense of members. In contrast they (falsely) argue that in joint stockholder companies directors are removed if they fail to deliver, while in mutuals they under-perform and receive more pay. Most potently they described directors as 'fat cats' which resonated with the zeitgeist of the day, even exposing some of the non-pecuniary benefits for directors. Others contributors examined the benefits that directors accorded themselves for evidence of fat cat behaviour:

*“How about the Community Award Scheme? ... note the donation to Wolverhampton Musical Comedy Society which serves mainly arty well-heeled youngsters (one of which is or was the Chief Executive's Daughter)..They got £2000.”* (Former member of staff, Staffordshire Building Society Hypocrisy of the Fat Cats)

Nor was this distrust of the board restricted to carpetbaggers, the BSMA regularly describes directors as fat cats:

*“There are two types of people that plunder your funds – Carpetbaggers and Fat Cats. No building society has ever disappeared through the actions of a carpetbagger. All conversions [including the Bradford and Bingley] have been the result of fat cat actions. But fat cats use carpetbaggers as an excuse to reduce the legal rights of members even further.”* (<http://www.building-soceties-members.org.uk/right04.htm>)

As chapter three discussed, this distrust of the motives of directors emerged with the collapse of paternalism and the current imbroglio is a function of members and management adjusting to a new relationship. Confirmation of the continuing resistance of members towards paternalism of directors was encapsulated by Dilbert:

#### 9.4.2 Longevity

Carpetbaggers rarely discussed the link between mutuality and longevity; rather they dismissed time as a historical irrelevance believing that today matters. This made it difficult when mutualists argued the benefits of a long-term perspective:

*“First, if I were someone looking for a mortgage I might very well be interested in the fact that, on average, building society rates consistently undercut those offered by banks over the past ten years. Second, current data show this trend to be continuing.”* (Chris, Mortgages, Mutuality vs Conversion, 2 March 1999).

*“And what have the last ten years got to do with now?!?!?!...Surely current/future performance should be our judge, not the past??”* (Rob, Mortgages, Mutuality vs Conversion, 26 February 1999)

The only other occasion when carpetbaggers discussed longevity was in association with windfall distributions. Following Bradford and Bingley decision to offer a flat distribution many longstanding members complained that carpetbaggers were receiving an equal reward. Responding carpetbaggers stated that a windfall was to reimburse membership rights not the extent of investment or length of membership. However, when the converting mutual insurers began to disproportionately reward loyal members carpetbaggers were indignant, arguing that they as newer investors should receive a greater proportion of the windfall as they would suffer lower returns for longer through the demutualisation!

*“Long term members have already had the benefit of a mutual organisation. It is recent members who will have some of their with profit funds give over to pay for shareholder dividends. Therefore recent members can expect to receive lower returns. People who have joined in recent years have most to lose by a conversion. It is they who should receive the majority of compensation.”* (TPC, Scottish Widows – Campaign? Current Conversions & Takeovers, 24 November 1999)

In justifying why short-term members should receive a greater tranche of the windfalls, carpetbaggers seem to accept that conversion to plc will worsen the performance of

their insurance investment, while seeking to invert the relationship between longevity and mutuality.

### 9.4.3 Reciprocity

To carpetbaggers reciprocity between the building society and members was seen as a cost against the business as staff time spent talking to members resulted in losing business:

*“If you really like to chat to a member of staff for half an hour when you check your savings balance, fine, but then let’s be clear – that is not free time, it has a cost, which is reflected in ‘costs’ on the balance sheet, and which is the reason for lower savings and higher mortgage rates.”* (Ten Passbooks, Leek’s staff expenses, Current Conversions & Takeovers, 1 October 1999)

Some like bigger bagger believed members who wanted reciprocity should pay a premium for it:

*“If what people want is a cheery chat surely that can be priced, say per fifteen minutes. Make it explicit, and see whether there is a market for it.”* (bigger bagger, Agreed, Current Conversions & Takeovers, 1 October 1999).

For most ordinary members the existence of a local branch is the most tangible sign of the reciprocity of the society and when these began to close carpetbaggers were delighted:

*“Personally I think it makes perfectly good business sense for BSs to review branches. As a member I don’t want to receive worse rates because I am subsidising an inefficient branch.”* (Ord, Mutuels shutting branches, Themoneybag.com, 21 May 2000)

More fundamentally, carpetbaggers questioned the validity of reciprocity between borrowers and savers, often arguing that as investors they were subsidising mortgage holders and on one occasion accusing borrowers of being the carpetbaggers:

*“The REAL carpetbaggers are people like YOU, my friend. GREED, as you put it, is on your part at the moment, as YOU are the one getting preferential treatment and nice little discounts, cheap mortgage rates, etc, at the expense of my interest.”* (Hawkeye, West Bromwich Building Society wins rule change, Mutuality vs Conversion, 30 July 1999)

On occasions carpetbaggers acknowledged that they receive excellent service from their society, although one carpetbagger believed the staff were being naïve in helping him/her avoid selecting an account with a lower interest rate. Generally though there were few complaints about the quality of service received, and it is probable that carpetbaggers would be most inclined to share any poor experiences. Instead one carpetbagger admitted being torn between the reciprocity through the service and a windfall:

*“Well call me old fashion, but the service I get is really good and they treat me as an individual. The manager is brilliant as I have built up a rapport over the years and does feel like a very personal service (even though I live in London). I honestly believe I get good advice and I have some had [sic] of the best deals on interest rate deals [sic] over the years...I feel they are working for me and pro-actively work in my best interest. I do feel a pang of regret that I voted for demutualisation because it all could change. But then your loyalty is to yourself and your pocket. Ohh [sic] what a greedy society we are...Call me sad but I enjoy the personal service of these old fashion, cumbersome, people friendly societies.”* (StumbledAcross, B& B windfall Multiple Accounts, Current Conversions & Takeovers, 25 October 1999)

#### 9.4.4 Caution

There were few references made concerning the importance of caution and stability to mutuals. This may have been because carpetbaggers saw these as a negative attribute during a ‘boom’ economy. The comments that were made portrayed building societies as old fashioned “Dickensian” institutions unable to respond to changes in technology as they were wedded to outmoded means of delivery.

*“The Internet and the forthcoming WAP enabled mobile phones which will allow people to access the internet and bank on the move. (approx. 50% of people have mobile phones, 5 years hence, almost everybody). Building Societies traditional branch network will become increasingly costly (compared to internet operations) and irrelevant. Mutual Organisations, in general, slow to adapt to any form of change....soon will be as dead as a dodo.”* (Mickey Mouse, Why are demutualisations inevitable? Mutuality vs Conversion, 30 January 2000)

What is unknown is whether building societies’ cautious approach will appear more attractive during a prolonged recession. In effect mutuals are long-term institutions that ‘smooth out’ economic cycles therefore they are more likely to be viewed as antiquated entities during the exuberant growth periods.

## 9.5 Role of members

Both carpetbaggers and mutualists want ordinary members to participate in building society democracy which they believe is being circumnavigated by management and directors. However, campaigning members are continually frustrated by the lack of interest shown by ordinary members:

*“It would appear from the number of members bothering to vote either in person or by post in elections or on resolutions at societies’ annual general meetings, that only a small number of members take any interest in the affairs of “their” society.” (BSMA 1995:11)*

Though there is disagreement on whether members should pledge themselves to mutuality before joining a society, with SOBS supporters arguing that people do not join a tennis club to change it into a football team, both sides accept that members should be permitted to propose motions and *“exercise democratic rights without fear of recrimination”* (Yendall, Press Release 6, 20 January 2000).

### 9.5.1 Democracy

As Carpetbagger.com developed the upholding of the democratic rights of members became increasingly important, and, as seen above, ultimately displaced windfalls as the short-term priority. There are two, and not necessarily competing, explanations for this change. First, and most cynically carpetbaggers believe that a fair vote will result in conversion because of the windfall available. However, the Leek United demonstrated that this alone is insufficient reason for demutualisation. Second, repeated examples of directors ignoring democratic principles created an environment where carpetbaggers could construct an image of themselves as ‘freedom fighters’ struggling against oppressive directors.

This construction of self began during the 1998 Nationwide election during which carpetbaggers believed the society’s desperation resulted in widespread voting irregularities:



*“The abuse of the voting process by staff (advice/form filling/pressure on pensioners AND YES opening envelopes from unsecured ballot boxes and throwing away those with the wrong answer). It was an abuse of democracy.” (Ord, Nationwide, Current Conversions & Takeovers, 29 April 1999)*

Carpetbaggers refused to accept the validity of the result and occasionally cite examples of other elections where staff ‘influenced’ voting behaviour. Though carpetbaggers condemn physical interference in the ballot they have increasingly focused on other alleged malpractices. These include the use by directors of complex language to explain motions, to confuse members; the design of ballot papers whereby ‘preferred’ candidates are highlighted or even have an arrow directing members who to vote for; and the almost universal use of the chairperson’s proxy vote to automatically support the directors. All these activities are also criticised by the BSMA and Mutual Members.

Although these were irritants it was introduction of higher thresholds to propose a motion and the subsequent behaviour of the Portman, Skipton and Chelsea that enabled carpetbaggers to re-configure their public discourse as the promotion of democracy rather than purely financial gain. When the requisite number of supporting members was raised from 50 to 500 carpetbaggers bemoaned the impact on building society democracy:

*“Teachers had 17,500 accounts in 1997. Of those 3,500 would be duplicates or have allowed balances to slip below £100 at some stage. Assuming 10% turnover per year then 2,800 others would have left the society, leaving only 11,200 people who could propose resolutions. 500 people is 4.46% of that total...Since there is no way of gaining access to the members lists to write to all members there can be little chance of a members’ resolution ever happening at Teachers BSs. The current legislation has killed off any chance of democracy in those smaller BSs where it was most relevant/suited.” (Ord, Teachers, Rules & Regulations, 24 December 1999)*

They were further surprised when the Leek United expelled those members who had signed the motion to propose the takeover by Murray Financial Services. This followed previous expulsions at the Britannia and the Chelsea and led carpetbaggers to believe that it was a deliberate tactic to deter members from signing motions and nominations:

*“I personally know members of the Leek who would only be too willing to support Murray, however they have all quoted the aborted support of resolutions at Britannia and Chelsea. Genuine members exercising their democratic right, only to be thrown*

*out by a self elected dictatorship who say WE KNOW what is best for NOT YOU. Support what we say or be taken outside and never seen again!"* (Realistic, Leek United, Current Conversions & takeovers, 16 September 1999) .

Moreover the perception of directors as an unaccountable oligarchy was reinforced by the responses of the Portman and the Chelsea and the Skipton to conversion motions. Carpetbaggers believed that the latter two had engaged in sophistry and made it impossible for members draft acceptable motions. As discussed in 9.3, the Portman in expelling the members who proposed the motions caused outrage among carpetbaggers and presented them with another opportunity to define themselves as victims.

However, carpetbaggers' protestations of an abuse of democracy is a means to an end; in effect carpetbaggers are demanding building societies act democratically so they can use this democratic process to convert the society. Through this interpretation by carpetbaggers, it is argued that directors of building societies undermined mutuality by their flagrant abuse of the democratic process in order to secure benefits for themselves:

*"Mutual directors are unaccountable and are planning to spend millions of pounds of members money telling them what to do and how to vote instead of presenting the facts (preferably using independent 3<sup>rd</sup> parties) and ASKING them what to do based on a personalised statement for each member of the effect on a windfall on overall loans/savings*

*Democracy is being paid lip-service to, what are they afraid of? Real shareholders with teeth perhaps?"* (Dilbert, The Debate, Mutuality vs Conversion, 10 January 1999)

In this argument mutuals are presented as undemocratic because they interfere with votes. Carpetbaggers adopt the practice of other elections to argue that building societies should be neutral regarding their own future. Equally shareholders are seen as equivalent to members the only difference being the liquidation of ownership, but this ignores the permanency of the move, the transition of votes in cash, the undermining of democracy, and that subsequent votes are based on wealth not individuality.

Carpetbaggers have consistently argued that mutuals are an economic anachronism, however, their critique of building society democracy is endorsed by pro-mutual groups and reflects a divergence between the management of societies and their members. By aligning themselves with mutualists, carpetbaggers have developed a powerful construction of self as 'little guy' facing a mighty corporation.

*“typical Torygraph hack...we are forcing democracy and she describes us a ‘shadowy figures’ too right love we live in a world where we get expelled from the Britannia for even suggesting we have a vote and all these Fat Cats are driving their jags and laughing at the MUGS (sorry members i.e. OWNERS) who are paying for their cock ups” (McBag T’Lot, Typical, New Campaigns, 1 December 1999)*

Through this the paradox of carpetbaggers can be perceived as both being able to promote capitalism while opposing those forces capable of challenging it.

Carpetbaggers may be disingenuous in their demands for greater democracy, but their treatment is symptomatic of the contradictions involved in a cultural shift from a paternalistic society to one which is fully participative.

## **9.6 Embeddedness of Mutuals**

The views of members, particularly carpetbaggers, are the embodiment of a set of values enshrined within Thatcherism and the thinking of the New Right. However, **this** conventional analysis of carpetbaggers omits the subtlety of their philosophy, **nor** should it be assumed that carpetbaggers are a homogenous group. Instead **the remainder** of this chapter will reveal that carpetbaggers disagree, and ultimately show **how their** own personal experiences of late capitalism affect their attitudes towards **mutuality**.

### **9.6.1 Role of the State**

Following the rhetoric of the 1970s carpetbaggers suggest that the **government is in** thrall to building society directors who use their influence to generate support for measures which ensure they remain unchallenged by members. This support by politicians is reciprocated through directorships of building societies after their retirement from parliament. The best examples of this are Rosie Barnes now a director of the Portman, and Lord Stewaby who as minister introduced the 1986 Act and is currently chairman of the Portman. A Labour government of which many carpetbaggers instinctively believe supports mutuality and co-operation heightens their suspicion of politicians:

*“They/SOBS have already succeeded with the help of the present Labour government in managing to raise the number of members required to propose a resolution. Were you*

*asked to vote upon this change? NO, this just goes to show what SOBS, the building societies who adopted this new amendment & the present Labour government who Okayed it think of democracy & how it should be applied to members of mutual societies.” (Miss Marple, I support SOBS right to canvas, New Campaigns, 17 December 1999)*

The introduction of the 75% rule angered carpetbaggers who highlighted the incongruity between the government’s election based on 42% of the population and the percentage required to convert a building society. Furthermore, many carpetbaggers believed that the government would suffer electorally if they continued with anti-conversion policies, a few postulated an anti-establishment argument in which the power elite sought to exclude the small investor from financial benefit:

*“Not sure if this is right place to ask, but was wondering who these back-bench MP’s are who want us carpetbaggers to go away quietly, because we are getting in (on a very small scale) of their gravy train that they lap up along with those charming pillars of society-the City of London leeches. God do I sound angry. Bloody right I am.” (Bigbags, Who hates carpetbaggers? Rumour & Speculation, 23 May 1999)*

Through both perspectives building societies are considered embedded into the existing power arrangements and are therefore complicit in promoting the “establishment” over the interests of their members.

## 9.6.2 Relationship with capitalism

If the building societies and the state were viewed as moribund, carpetbaggers were united in holding that these networks of power would be swept aside by capitalism, which through an intensification of competition, ensures effective management.

*“The free market works, hence the increasing competition. If Bsocs don’t adapt they will perish as surely as the horse and cart industry. If you pretend that controlled markets work better, you end up like Albania, or perhaps e.g. the Portman/Skipton/Chelsea (some very rich unaccountable “leaders”, and bugger off everyone else.” (labagger, Carpet Bagging is morally wrong...but still, New Campaigns, 7 January 2000)*

As Labagger’s statement indicates, if the benefits of capitalism are questioned contributors associate mutuality with the ‘failed’ state socialist alternatives. Underlying these arguments are a strand of economic Spencerism, a belief in the inevitable and that the fittest, and by consequence the biggest will prosper.

*“The general notion of Darwinism works just as well in society as it does in biology. What is best (for the most) will in the end displace what is less effective....to be offended at natural human rapaciousness is to deny the existence of what makes all thinking humans tick.”* (ERA, A Warning to all Carpetbaggers, Current Conversion & Takeovers, 4 December 1999)

This inevitability is unchallengeable, economic forces cannot be denied and those that ponder the effect are brushed aside as antediluvian or inefficient:

*“The only true job security comes from being up-to-date and embracing change and technology....Your argument is like the one in the 1970s that said that the best way to safeguard jobs was not to privatise any nationalised industry.”* (Dilbert, P45 Givers, New Campaigns, 1 December 1999)

Through the prism of inevitability mutuals are seen as antiquated and their reliance on branch networks will result in their demise via conversions. By mentioning 1970s working practices, carpetbaggers are seeking to associate building society directors with inefficiency and corporatism, via the ‘power elite’ argument mentioned in 9.6.2.

Ironically this type of polemic has parallels commonly employed by Marxists who hold that capitalism will inevitably collapse under its own contradictions. Thus once again the carpetbaggers are employing the language and vocabulary of the left to promote a Thatcherite agenda. However, at least one carpetbagger is aware of the risks of this approach and warns others that carpetbagging should not engage in criticising the beneficiaries of capitalism:

*“I am getting a little fed up with the anti-wealth attitudes on this board. I am a fervent Capitalist – that is why I want to convert mutuals to PLCs. I am not going to make all this effort on behalf of anti-establishment commies.”* (Dilbert, Time for paws for thought? Carpetbagging Tips, 27 November 1999)

### 9.6.3 Globalisation

Considering their interpretation of capitalism, it is unsurprising that carpetbaggers accept globalisation. However, that should not assume endorsement, as I could identify no posts welcoming globalisation. Instead they hold that globalisation will disrupt all existing power structures, with significant impact on medium sized financial institutions:

*“We need to observe the current trends (consolidation, new entrants, internet/telephone banking, securitisation), extrapolate that into the future and decide whether a medium-sized branch-laden society can survive in its current form.”* (Webmaster, I’m not a bank fan either! Mutuality vs Conversion, 28 January 2000)

To many contributors these processes would favour the larger organisations with their ability to exploit global economies of scale. This is compounded by the technological revolution which is making it easier to enter banking but more expensive to afford the appropriate technology. Moreover, the internet has resulted in an information revolution enabling savers to compare the performance of financial institutions and make virtually instantaneous switches between accounts. It is likely that a narrative of positive technology driven globalisation would be extensively used among those who demonstrate their computer literacy through accessing the carpetbagger.com website. However, the globalisation thesis developed by the carpetbaggers also assumes that consolidation is preceded by global demutualisation, which they argue proves that a branch-based building society will be disembedded through fiscal imperative rather than local connection.

#### 9.6.4 Glocalisation

Despite carpetbaggers welcoming globalisation because of the likely windfalls it will help ensure, there is some ambivalence about its broader effect. In contrast SOBS supporters were implacably opposed to globalisation as this undermines an essential aspect of mutuals, that of serving a local community. Members First who held that smaller societies should be preserved because they have remained committed to the original principles of mutuality shared this view. These attitudes also had sympathisers among carpetbaggers. When discussing future tactics a majority of contributors wanted the smaller societies to remain mutuals because they were community focused. This was in contrast with the larger societies that had become multi-billion pounds faceless enterprises. However, there were some dissenting voices with Ord arguing that most were too small to survive and therefore were *“dead in the water”* (Standard Life & Prudential, Mutuality vs Conversion, 18 March 1999).

The limits of this purely economic analysis came during the attempted takeover of Leek United. Throughout the campaign Ord made numerous posts demonstrating the alleged inefficiencies of the current management but ultimately accepted Walter Plinge’s

argument that the people of Leek were “*traditionalists*” and therefore “*will vote NO on this deal*” (Some Musings on Bleak Leek, Current Conversions & Takeovers, 30 September 1999). Others feared that the bid would present “*as big bad interfering outsiders*” (Phantom Bag, Some musings on bleak Leek, Current Conversions & Takeovers, 1 October 1999) and the presence of Britannia’s headquarters in the town made conversion a contentious issue. The bid for Leek was the first attempt to convert a small regional society and its failure despite the economic arguments and the windfall available indicated to carpetbaggers that locality, if only temporarily, can resist the forces of globalisation. Furthermore even carpetbaggers accepted and some openly endorsed a limit to economic determinism. Part of the explanation for this paradox is that carpetbaggers also experience the effects of globalisation on their lives, through increased job insecurity and thus they view windfalls as an opportunity to financially protect their families from its effects.

*“I am sure most people on this site are sickened when they see the likes of Barclays making such huge profits and yet they still want to make their staff redundant. The problem in this information age is that progress’ will destroy many current jobs/trades/professions. ... There is not a person reading this who has a secure job and unfortunately your members [talking to a building society union representative] are in the same predicament.”* (General George, Protecting Jobs by remaining Mutual, Mutuality vs Conversion, 17 February 1999)

Therefore carpetbaggers sympathise with local institutions and members of staff while wanting a windfall, because they feel they must maximise their own interests to minimise the possible disruption caused to their kinship group by globalisation.

## **9.7 Summary and Conclusions**

The previous section highlights the paradox of carpetbaggers. Though they accept the logic of hyper-capitalists, predominantly because they are beneficiaries, they also fear its effects on their lives. Opposition to the management of building societies emerged during the decline of paternalism, and carpetbaggers are both a product of this process and exploiters of its effects. This potentially compromises pro-mutual campaigners who find their discourse hijacked and commodified by carpetbaggers who even use longevity of mutuality to argue for greater compensation for themselves. In such regard,

carpetbaggers have become a crypto NSM, superficially displaying similar characteristics but pursuing objectives in opposition to most other NSMs. Therefore it is unsurprising that their arguments sometimes superficially contradict their motives. Finally the use of the internet enables a 'privatisation of campaigning', whereby participants can engage without meeting, enhancing the potential sustainability of the movement. This new development raises questions about the continual validity of Olson's Free Rider Principle as maximum benefit can be secured with marginal engagement.



## 10 Triangulation of Findings

This chapter brings together the empirical evidence detailed in the three previous chapters to assess comparatively the validity of the theoretical interpretations. The methods employed have enabled an examination of differing sub-sets of social actors within mutuals and through triangulation it is intended that understandings of contemporary mutuality are developed. This process has two objectives: first, to affirm the veracity of the mutual and co-operative models discussed in chapter two, specifically to ascertain how these concepts were accepted, recognised and conceptualised by the various subject groups: particularly how social actors' and sub-groups' understanding of the components of mutuality affect the narratives they employ to explain its current condition. The second objective is to analyse the theoretical discourses outlined in chapters 4 and 5 that seek to understand mutuality's evolution in recent years, a process complicated by mutuality's non-linear progression. Rather mutuals have simultaneously transformed into another economic form and been created anew, while the concept of mutuality has been reimagined.

Within mutuals there are three identifiable constituencies, of which the primary and largest group are the members. As stated in chapter 6, this segment is invariably ignored by research and their views are rarely sought. Mutual members' views would inform us whether a collective experience continues to operate, or whether members have commodified the exchange relations. The second segment was the management, who were mainly paid professionals, though a few of the credit union leaders were volunteers. With mutuals become increasingly professional and the knowledge asymmetry between members and management continuing to widen, the loyalty to, and understanding of, the concept of mutuality by the leadership, would help researchers predict developments.

With these two data sets it would be possible to counterpoise attitudes, to locate nuances of interpretation, and identify shared values and contradictions. Overall this would provide a perception of the current status of mutuality. However, a third and much smaller constituency exists. Although most members have only a passive engagement with their mutual, there is a minority of vociferous activists. Traditionally these could

be regarded as a sub-set of members, but the advent of carpetbaggers with their strident opposition to mutuality, justifies a separate classification.

Figure 10-1: Triangulation of research data

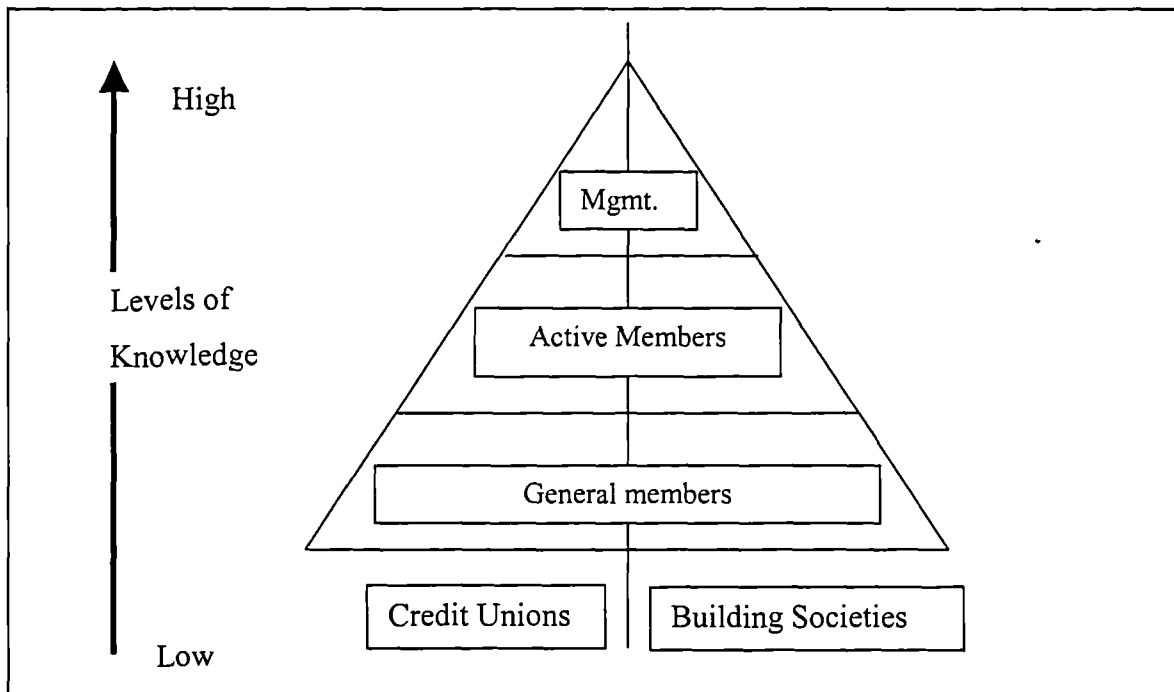


Figure 10.1 shows how these three segments were initially utilised in this research. The order was chosen to demonstrate the relative degrees of knowledge about the specific mutual organisation, rather than importance. The design also acknowledges that in some mutuals, such as credit unions, the active members may become incorporated within the management pool.

Figure 10-2: Triangulation based on duality of credit union leaders

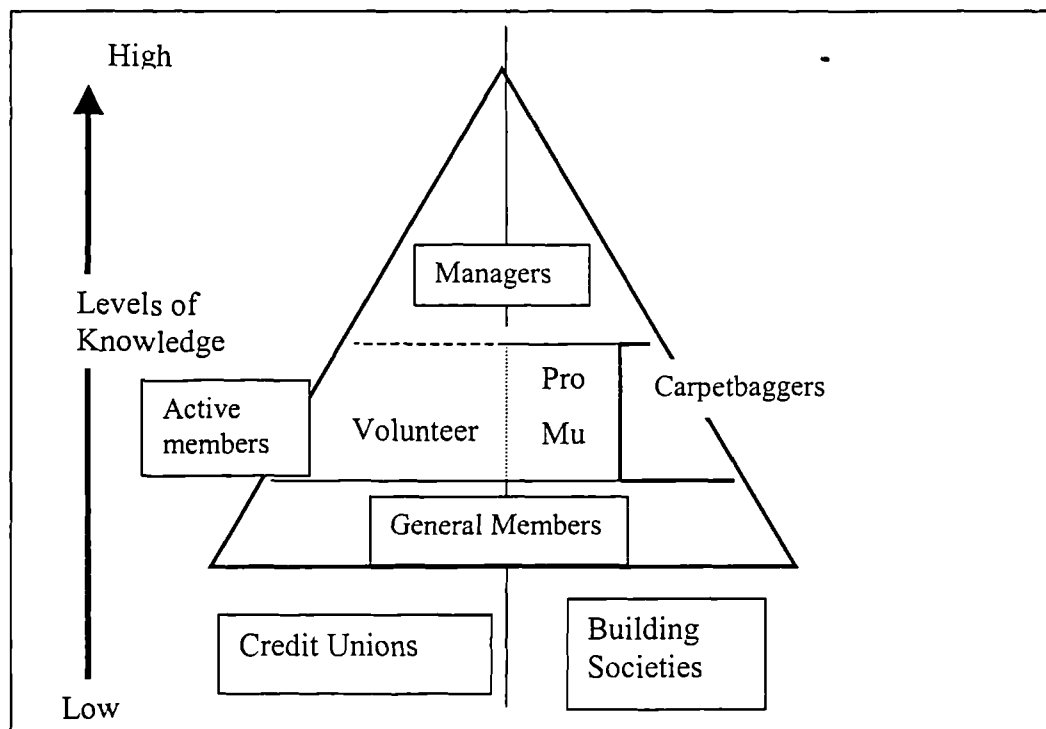


Figure 10.2 develops this theme to argue that active members may have dual roles within credit unions. Also it would be inappropriate to equate volunteers solely with idealists and managers as instrumentalists, as no evidence was found to support this categorisation. Instead it could be argued that idealists, who currently manage smaller societies, are part of a pro-mutual pressure group consensus. Additionally, as many of these individuals are volunteers, it is possible that many have a common frame of understanding with pro-mutual membership groups within building societies, rather than the professional leaders. Equally some volunteers may desire a more professional approach, while retaining unpaid directors, a view popular among credit union interviewees, thus the use of broken lines to signify the permanence of categories. Finally carpetbaggers have been segmented from other active members, since they have no common interests, nor are they connected to mainstream members as the purpose of their membership is to demutualise the society, not access its services. Although this should not imply that carpetbaggers have no influence upon the general membership.

## 10.1 Understanding Mutuality

Among the managers and the ordinary members there was confusion regarding the meaning of mutuality, with only 57% of members seeing themselves as members, as opposed to customers. Moreover a few of the managers did not know the definition of mutuality. Where responses were secured, there was a tendency to use a narrow economic interpretation, or adopt a paternalistic stance of service and benefit to members. This confusion enabled carpetbaggers to inverse the economic definition and argue that building societies should convert, because they were economically ineffectual when compared to banks, hence this was usually supported by the argument that as the purpose of building societies was to be democratic economic agents, their undemocratic practices should lead to their demutualisation. Thus carpetbaggers began to construct their own narrative of decline, based on the assumption that mutuals were not pursuing 'genuine mutuality'.

### 10.1.1 Trust

Most of the leaders accepted that mutuals enjoyed high levels of trust, with building society managers acknowledging that the term 'building society' was an important marketing tool, since it engenders goodwill with prospective clients. An interrelated factor was the presence of branches, which provided reassurance to members. For example two managers stated that loyalty towards the society and usage of postal accounts was higher in areas with a branch. Though the credit unions leaders interviewed had not employed trust when promoting their services, they gave numerous examples of informal trust relations with members. The surveys uncovered no evidence of distrust of mutuals, but it should be noted that those most likely to be distrustful were unlikely to retain membership or join the organisation. Members' instinctive trust of management was indicated when 47% confirmed that they did not want any further say in the running of the society. A number of these openly admitted that the professional staff should be trusted and allowed to operate unfettered by members. However, a majority of the respondents also wanted directors to be more accountable. This suggests that though members trust the managers, the traditional paternalistic approach of building societies is no longer acceptable. Instead members are searching for a newer more equitable relationship. Carpetbaggers were also opposed to the paternalistic approach of building society managers and wanted societies' policy making returned to

the membership. In contrast to the general satisfaction, carpetbaggers cited the behaviour of senior building society management as examples of misplaced trust. Due to what were perceived as sharp business practices, their attitude during the property recession, and personal aggrandisement, carpetbaggers believed mutuals were being managed by a self-appointed oligarchy, intent on maximising a personal gain. This view was shared by pro-mutualist campaigners and could be viewed as part of a cultural trend against executive pay, rather than a specific feature in mutuals. However, this supports the argument, that building societies are expected to perform against standards in excess of and ignored by joint-stock-companies. Once again this suggests that the dominant discourse places greater burden on alternative structures, than it is willing to accept upon itself.

### 10.1.2 Longevity

Though building society managers still believed long-term commitment gave them a commercial advantage, they were concerned that this was being undermined by the market's obsession with growth and short-term values. In particular the use of best buy tables was creating a situation where financial institutions would launch a product merely to top the chart briefly, and then rapidly reduce the rate once customers had been attracted. This was having two effects on mutuals. First, if they took a 'mutual stand' and refused to participate in such activity, they were accused of being uncompetitive and slow; and second, if they did compete they were charged with un-mutual behaviour. Meanwhile, joint-stock-companies were allowed to create 'churn' within the market and disrupt mutuals' relations with their members.

The importance of longevity to mutuals was confirmed in the member surveys as the strongest opposition to demutualisation was among those with accounts for over 20 years; while the weakest commitment was from those with multiple accounts with various financial providers. Thus the more sophisticated the investor the less likely they were to support longevity within a mutual. Yet, some of those who had been members of converted societies believed demutualisation was myopic since the service had deteriorated markedly. Unusually, carpetbaggers were virtually silent on longevity, except to state that only the current situation was relevant in the market. Ironically, the only occasion when longevity enters mainstream carpetbaggers debate is when they

were discussing windfalls. Here they adopted a seemingly mutual argument, believing that newer members should receive greater windfalls, since they will be excluded from the benefits of remaining in a mutual over the long-term!

### 10.1.3 Reciprocity

All the managers stressed the social interaction with clients that went beyond the exchange relation. However, among credit unionists there was a fear of losing intimate reciprocity during the transition to a more professional branch based service.

Most building society managers cited two ways in which reciprocity is practiced. First, by parity of service and second, through the continuation of a branch based service. In the surveys members did not express any reservations about equality of provision and generally endorsed the quality of service. This was in contrast to the carpetbaggers who believed reciprocity was expensive and should be charged to members. Additionally, they were amazed that staff should not seek to exploit members, believing this demonstrated a lack of commercial sensibility. Similarly, carpetbaggers wanted branch networks reduced, arguing their continuation was a waste of the alleged 'mutual dividend'. This is diametrically opposite the survey findings, as 41% stated there were insufficient branches, a figure that rose in more deprived areas who have endured the brunt of the branch closure programme. Nor was there any significant demand for internet services, with 88% of members happy with branch opening hours and only 7% accessing internet banking. It is apparent from the data that reciprocity is valued highly by members, which may create challenges for managers who were concerned that delivering non-commodified high cost services could result in mutuals serving residual communities.

### 10.1.4 Caution

Carpetbaggers were diffident about the benefits of caution to mutuals, because it indicated an old-fashioned mindset unable and unwilling to respond to new technology and opportunities. Again this is used to reaffirm their narrative of decline. In contrast 90% of credit union members found membership made it simpler to save money, while 71% found it easier to manage their money. Nor was there any evidence that credit unions encourage over-indebtedness, rather a net +13% used less credit than previously.

Though demonstrating the care shown by credit unions towards their members, this was also applicable to building societies, who undertook less repossession than the banks during the early 1990s housing recession. All the building society interviewees believed their economic model with its reliance on organic growth was more sustainable and stable than that offered by joint-stock-companies. Although acknowledging the dynamism of the latter, they insisted that concentrating on delivering a core activity was good business practice. Equally the smaller societies disputed the interpretation that they were slovenly with regards to technology, arguing that it was sensible to invest when prices were falling rapidly after the research and development phase. In such an interpretation caution can be seen as a prudent management approach serving the interests both of individual members and the organisation.

## **10.2 Relationship with members**

The earlier historical review (chapters 3 & 4) explained how the development of mutuality differed from the co-operative model. On occasions the solidarity between members has been negligible, stability has been disrupted by the state, and latterly by carpetbaggers, and building societies never had the protection of the non-transfer of ownership. Consequently the focus of member relations had been democracy and to a much lesser extent education.

Interviews with building society managers disarmed the carpetbaggers' charge that they were remote and arrogant. Instead they were willing to accept that mistakes had been made and acknowledged that carpetbaggers had stimulated management to reconnect with mutuality. What frustrated managers and carpetbaggers was the apparent apathy of most members. Most managers believed that an active membership would improve the mutual and rejected the view that inaction equates to contentment. As noted in 10.1.1 the many members were satisfied with the current management but did want greater levels of accountability. This was endorsed by some managers who had undertaken greater member participation through direct mailings, open questions on policy matters in newsletters, and 'Talkback' events, where members could quiz directors. Regardless of/in addition to these activities managers wanted to enhance communication with members and use member interaction as a means to improve their businesses.

Moreover, 75% of members felt that their society did not ignore their views. However, knowledge about mutuality was variable, especially among women, pensioners and the under 30s, most of whom saw themselves customers. This is important because those that considered themselves members were more likely by a margin of 8 to 5, to have a greater sense of ownership. Without this commitment it is difficult to envisage members becoming more involved in their society.

Members' interest in the affairs of mutuals was also higher in building societies with contested elections. In contrast, in industrial credit unions with uncontested elections, members had low sense of community and only intermittently became involved. Nor do credit union members have a better understanding of how their mutual operates as only 7% knew how the dividend was calculated, suggesting that participation and knowledge by members was linked to electoral competition, familiarity, and effective communication, and had no correlation with the size or type of mutual.

While building society managers highlighted their consumer champion role, particularly regarding the free use of ATMs, carpetbaggers were emphasising the abrogation of democracy by chief executives. They claimed that building societies tampered with voting slips, issued biased election literature and ballot papers, and altered the meaning of members' nominations. And if all that failed they proceeded to expel members who held an alternative view. Pro-mutual groups, who felt that the management had sequestered mutuality, shared many of these complaints. While some managers accepted these points they felt critics failed to distinguish between the behaviour of different societies.

Where carpetbaggers differed from pro-mutual campaigners was through the usage of these experiences to construct a collective identity as 'freedom fighters', struggling against the monolithic building societies. In this scenario every expellee became a martyr and all defensive actions by building societies are considered slights, merely reinforcing their determination. In this carpetbaggers, rather than be seen as agents of capitalism, positioned themselves as the Lilliputian opposition. This comparison was extended when they reduced their argument to the issue of free and fair elections, expecting such an outcome would increase the likelihood of a windfall. The effectiveness of this narrative was visible in the members' survey, with 76% of wanting



a vote on the future status, and 74% against expulsions for those who proposed conversion. However, this was tempered by the majority being opposed to conversion (56%), although women were less attached to continued mutual status than men.

Managers were aware of the paradox of this situation and disputed the automatic ownership rights of contemporary members, equating them to a form of 'beneficial trustee'. Usually managers compared the ownership rights of members to that of a sports club or the National Trust. In this interpretation members could participate in policy matters, but ultimately the assets cannot be sold for personal pecuniary gain. Managers also challenged carpetbaggers' commitment to democracy, arguing that they employed the principle of democracy to demand the implementation of a democratic process, in which democracy will be exchanged for money. Managers noted ruefully that this capitalist subjugation of democracy reduces mutuality to a cipher, while they are simultaneously expected to be openly accountable to members, unlike their colleagues in the banking sector.

The evidence presents a mixed picture of the relationship with members, with women having less affinity and understanding of their mutual than men. Generally members are satisfied with the management of building societies, although attempts at further engagement would be welcomed. Where members agree with carpetbaggers is in demanding 'free and fair' elections and the opportunity to vote for demutualisation. As the majority of members were opposed to conversion, it could be argued that management should have more confidence in their ability to win such votes. However, these questions are asked in isolation, and in the absence of a probable windfall that could result in a very different outcome. What this conclusion emphasises is the destabilising effect of transferable ownership, confirming that non-transferability helps ensure the stability of the cooperative model.

### **10.3 Functionalist interpretation**

Alone among the constituents the carpetbaggers asserted the functionalist explanation for the changing nature of mutuality. To them building societies were too slow to adapt because there had been insufficient pressure on the management. By contrast they

argued successful companies were those that grew rapidly by acquisition, and use their global reach to maximise efficiency gains. This avowedly Spencerian analysis was complemented by a neo-liberal ideology imbued with a conviction of the effectiveness and omnipresence of the free-market. To carpetbaggers this was self-evidential, as socialism had failed, which they equated to building societies. Furthermore, carpetbaggers often employed a tautology, arguing that building societies were in terminal decline as their numbers had fallen from over 3000 in 1900 to 68 today.

Unsurprisingly these interpretations were dismissed by building society managers who stated that economies of scale were not linear, as medium sized financial institutions were the most efficient, with diseconomies of scale appearing in larger organisations. Even the banking representative interviewed considered the economics of scale argument as ideological and not empirically based. Instead the obsession with size is a function of a discourse of capitalism, which defines the parameters of success, thereby excluding institutions that develop organically from the bottom up, on the basis of an alternative model of ownership.

Nor was there sufficient evidence of the alleged detachment between members and management that occurs when mutuals grow. It was previously noted that building societies continued to enjoy the goodwill of their members, and that leaders of credit unions desperately wanted to retain interpersonal links with members. Rather than pursuing personal gain, professionalism was perceived as a means to achieve the original idealist goals. Though the more idealist interviewees were concerned about growth, they accepted it because they hoped it would ensure financial stability and offset the risk of burnout among current volunteers.

Though managers would be expected to dismiss the economies of scale argument, the surveys demonstrated a strong opposition to the functionalist discourse; 62% of the members of the regional society rejected the thesis that their society was too small to survive. Explanations ranged from an instinctive dislike of 'big business', to considered arguments regarding the logic of economies of scale. Perhaps more surprisingly, similar results were recorded at the national society, in which 82% of the sample disagreed with the statement that the society was too big to care about individual members, and of the four that agreed three were carpetbaggers. Across the sample the only support for the

functionalist argument came from those that considered themselves customers not members, again suggesting that the discourse of capitalism and members knowledge and endorsement of mutuality was a more important factor than any evolutionary business theory.

## **10.4 Review of Narrow Neo-Marxian Interpretation**

As outlined in chapter 4, the neo-Marxist argument evolved from the ineffectuality of paternalistic management and their subsequent replacement by those focused on profit orientation. Due to the historical and reflective perspective of this interpretation, empirical analysis of this narrative was restricted to qualitative methodologies. The only tentative evidence from the questionnaire that members preferred a less paternalistic management was in their desire for greater accountability and opposition to the expulsion of pro-demutualisation members.

The most extensive exposition of neo-Marxist argument came from mutual managers. Building society managers believed their predecessors were often remote from members and became introverted precluding innovation. Though common across the financial sector, the passivity of members within a paternalistic society resulted in a slower response to changing circumstances than that of joint-stock companies, with their allegedly more interventionist shareholders. This was considered invidious, because building societies thereby surrendered their structural advantage of shorter lines of communication between constituent parties. However, in contrast three interviewees, who described themselves as paternalists, argued that adapting to change involved reciprocity, which could be enhanced through a caring managerial approach. This pro-paternalist cohort was restricted to regional societies, while the managers of national societies emphasised the need to engage with and learn from members.

Regardless of opinions on paternalism, most interviews suggested that the influx of new managers not wedded to mutuality, which occurred in the 1980s, was the primary responsibility for demutualisation. With the burgeoning of professions required to operate a financial institution, building societies recruited individuals from sectors untouched by mutuality. These managers found mutuals inefficient and sought to

replicate the culture of joint-stock companies. Although a number of the changes were necessary the interviewees believed that too many professionals were employed with scant regard to the values they inhabited. Therefore it was unsurprising that when demutualisation began to arise at board level, there was insufficient internal intellectual opposition. Furthermore it was argued that the senior management were motivated by egotistic and social motivations, because running a bank was seen as more prestigious than leading a building society. This was fuelled by the considerable personal financial gains available.

In complete contrast carpetbaggers argued that those that remain senior managers of building societies rather than choosing to convert displayed 'genuine' greed. Managers avoided demutualisation because of the ease of work and lack of accountability they enjoyed. To carpetbaggers, and to some pro-mutualists, managers were a self-appointed oligarchy whose sole purpose was to perpetuate their status. However, the managers of joint-stock companies deserved greater pay than those in building societies because their job was more complex. This exposed a contradiction in the carpetbaggers' argument in that mutual managers were greedy and yet failed to maximise their personal benefit. This apparent confusion led some carpetbaggers to decry all fat-cat salaries, while others defended executive pay because they were capitalists and not "anti-establishment commies."

Extending the neo-Marxist argument into credit unions Rimmer (1998) argued that instrumentalists were subverting the movement. Although six interviewees were concerned that professionalism may detach them from their members, all interviews argued that the future prosperity of their credit union was dependent on a more professional approach. Indeed the division between idealists and instrumentalists can be seen as an artificial construct, with social actors displaying traits of both stances.

Overall there was insufficient empirical evidence to fully support the thesis that demutualisation was driven by managerial aggrandisement. It does explain the motivation for specific social actors but not why it occurred in the 1990s.

Interpretations based on the ending of paternalism were challenged by the data, which showed it was still being practiced in prospering building societies. Moreover remaining managers appeared to have forsaken material gain in order to operate a

mutual. Similarly, even among credit unionists the instrumentalists seek professional status to ensure the future of the industry, not for pecuniary benefit. Instead the evidence suggests that the motivation for the managers of mutuals extends beyond money.

## **10.5 Assessing the Embeddedness thesis**

Some of the more reflective interviewees suggested that managers of demutualising societies were influenced by the prevailing social conditions, thereby emphasising the exogenous factors outlined in chapter 5.

### **10.5.1 Intervention of capitalist state**

Significantly managerial interviewees complained about the imposition of objectives upon mutuals, which effectively curtailed activity and attempted to limit their potential markets. This image construction was most apparent within credit unions, whereby the local state, and subsequently its national counterpart, have defined its purpose. Although credit union interviewees stressed their role in supporting deprived communities, they feared ghettoisation, most notably through the phrase: 'the poor man's bank'. The difficulties with this were twofold; by being defined as for the poor, it was automatically assumed they were not for others, which has had severe impact on credit unions' economic sustainability; and if aimed at the poor, credit unions were assumed to be an extension of the welfare state. Thus local authorities employed credit union development workers located within anti-poverty units, forsaking economic viability for 'community development'. Though this interpretation was abandoned by the national state, it still tasked credit unions with tackling financial exclusion; a role interviewees were willing to perform if fiscal support was available and providing it did not deter other potential members.

Circumscribing the mutual was evident in building societies during the demutualisation period and in debates among carpetbaggers. Again a mutual form was construed as serving deprived communities. Thus interviewees were frustrated when attempts to offer more competitive services to wealthier individuals were criticised as un-mutual. Similarly building societies faced opprobrium when increasing executive pay or closing

branches. In contrast they noted that banks had less restrictions on their more destructive behaviour within communities. Yet without the ability to manage costs, interviewees believed building societies would lose market share and ultimately have to merge or demutualise. A further handicap for building societies was that they were perceived as old-fashioned institutions, congenial but largely irrelevant. Thus interviewees felt trapped by the obligation to offer a community service and the commercial imperative to reform and modernise.

Alongside this image construction mutuals were required to comply with a capitalist lexicon. Thus interviewees bemoaned the replacement of 'surplus' with 'profit' in balance sheets and the adoption of income maximisation ratios. One interviewee believed these changes enabled a shift in attention towards a more profit centred banking approach, negating the less tangible aspects of mutuality. This process was reinforced by the supplanting of 'member' by 'customer', thereby undermining the ownership component within mutuality. In changing the nomenclature building society employees were further removed from mutuality, which became another reinforcing factor in the transition to 'quasi mutual' status. However, being forced to alter their language and therefore culture, was not matched by accompanying permissible actions. For example an interviewee highlighted the disparity between the use of accounting ratios which were short-term measures, against the restrictions on building society balance sheet management. Thus while banks were allowed to accumulate and then write debts off in a single year, thereby giving the appearance of one bad year among many good, building societies were prevented from making a loss in any single year. If this occurred the regulator would deem the society insolvent and demand a transfer of engagements. Consequently the regulator seemingly imposed double standards, in forcing compliance to plc rules, but only selectively granting the associated freedoms.

From the interviews it was apparent the twin processes of an externally defined conceptualisation of the specific mutual, and necessity to conform and abide to the capitalist lexicon, informed the development of legislation and regulation. This resulted in a framework that neither matched the philosophy of mutuality, nor provided sufficient liberty to enable mutuals to define their own identity. As detailed in chapters 3 and 4, building society legislation was characterised by poorly drafted attempts to prescribe activities. Therefore it was unsurprising that interviewees cited the 1986 Act

as a contributory element in the demutualisations. Specifically, the offer of five-year protection for converters encouraged Northern Rock to convert, as no such immunity was available to remaining mutuals. Credit union interviewees, who were exasperated at the narrowness of their legislation, expressed similar views. All believed that the development of the sector had been inhibited and the direction provided was inappropriate. Thus legislation had assumed that credit unions would serve the poorest and therefore it was necessary to closely regulate and restrict its activities, resulting in economically unviable entities, too small to have any impact on financial exclusion. Whereas building society legislation had almost inadvertently pushed societies to demutualisation, the law on credit unions insisted on excessive mutuality at the expense of economic sustainability.

For the interviewees it was the regulatory approach, which aggravated the inherent challenges of the legislation. To some, regulators appeared to assume that capitalist management systems were superior, seeking to impose them on all institutions with minimal consideration of their impact. This was seemingly motivated by a bureaucratic imperative for a single set of rules thereby ensuring organisational conformity. Apart from the cultural difficulties this posed, credit union interviews questioned the appropriateness and cost of compliance for entities of their size. Much of the regulatory guidance was perceived as irrelevant or too excessive, with the result that the volume of activity was encouraging the employment of paid staff. In this way, it was argued; the government's objective of professional credit unions would be achieved, while the space for diversity within the sector was being curtailed.

Working within prescriptive legislation, mutuals have attempted to lobby successive governments, and yet when successful in securing concessions this has alienated the carpetbaggers. Extracts from the websites have demonstrated a conviction that mutuals should comply with capitalist discipline and standards. Any allowances granted by the state are seen as evidence of collusion, with politicians receiving non-executive directorships in building societies after leaving parliament. Using this discourse, often incorporating humour to demean their subject, the carpetbaggers are able to present themselves not as agents of capitalism, but a form of new social movement campaigning against 'power elites'. It is alleged that these elites, while acquiring resources themselves, criticise and obstruct private individuals' attempts to improve their fiscal

position. Through this narrative, identities are exchanged whereby capitalism is presented as the revolutionary force and its opponents are the conservatives.

### 10.5.2 Impact and influence of Thatcherism on demutualisation debate

It was suggested in chapter 5 that the social acceptance of privatisation created an environment in which demutualisation could occur. Certainly the building society managers interviewed cited a culture of glamour pertaining to acquisition hungry enterprise and the increasingly consumerist era in the 1980s, as diverting some of their contemporaries from mutual endeavour. Moreover one interviewee believed Thatcher viewed mutuality as quasi-socialistic and therefore in need of reform, a view endorsed by many carpetbaggers who argued that building societies were moribund organisations equating them to ‘council housing’, rather than dynamic capitalist companies.

However, the class-based dichotomy contained within the surveys suggests a more complex interpretation of Thatcherism’s effects. Although awareness of privatisation was a fully 79%, only 20% of the sample had shares in privatised companies. The majority of these were either Conservative supporters or from the middle class. Similar groups, along with men (+23% net) were the strongest supporters of privatisation. Most opposition was drawn from Labour supporters (-24% net), the working class (-24 % net), and women (-14 % net). Through cross-tabulation it was possible to identify and correlate attitudes towards privatisation and demutualisation. 51% (+27% net) of those in favour of demutualisation supported privatisation, compared to 28% (-8% net) who opposed conversion but favoured denationalisation. Similarly, those in receipt of windfalls were four times as likely to approve of privatisation than those without. This evidence suggests that the proposition that Thatcherism enabled demutualisation to occur has some validity, but its endorsement was limited to the middle classes who were the primary beneficiaries of both processes. Thus the carpetbaggers’ argument reflects the opinions of an articulate interest group and not a plea from an excluded minority, nor the representative view of members.



### 10.5.3 Connecting late twentieth century mutuality to aspects of globalisation

As discussed in chapter 4, the Halifax demutualisation was partially justified by the necessity to compete in a globalised market. This argument has been associated with transformations in technology, which carpetbaggers argued have improved communications and information flow, but at severe financial cost. In effect those that could not afford to invest in this new technology would soon become ineffective and ultimately obsolete. The managers interviewed doubted the validity of this interpretation, as noted earlier. However, the globalisation argument within mutuals is cultural as well as economic, with members rejecting the thesis that regional societies are too small to survive (see 10.3), and emphasising the importance of human interaction in relations with financial institutions. Furthermore the active members, such as SOBS and the credit union interviewees, hold that reciprocity is a desirable and an essential benefit of mutuals, which is absent in banks. It is these intangible services that attract and retain the commitment of new members. Both sides of these globalisation arguments are found within the carpetbaggers' debates. Most adopt a Spencerian attitude that change is inevitable and adaptation is a necessary response, which in their terms means demutualisation. Others are less sanguine and reconnect carpetbaggers with the dissent evident in other New Social Movements, preferring to explain their involvement not as an ideological crusade, but motivated by a desire to protect their families against the insecurities of a globalised economic environment. For these carpetbaggers, demutualisation is the conversion of theoretical collective protection into a guaranteed transferable asset that the individual is free to utilise.

Nor were the managers interviewed blind to these contradictory flows and all were impressed how the Leek United Building Society had successfully employed 'locality' as a defence against demutualisation. Most went further, believing that a cultural shift was underway in which the benefits of society and its mutual values were being rediscovered. Simultaneously they argued that consumer voices were strengthening and asserting their distaste at the more exploitative practices of the banks. Beginning with branch closures, customers became aware that globalising banks were pursuing a depersonalisation of service in order to increase profitability. Thus the interviewees described stories of bank customers being 'forced' to use technology rather than branch

counters, and how some customers found themselves excluded from services because they were not 'profitable' enough. In response the interviewees argued that customers were becoming alienated from both the excessive commercialisation of the banks and the absence of any influence over the provision of services.

Consequently opposition was expressed to the accumulation of wealth by banking executives, and one interviewee pointed to the wider effects of globalisation, in which it seemed success could only be achieved at the expense of a community elsewhere. Thus not only was globalisation alienating for the individual, but the process of distancing was making communities aware that benefits to themselves affected other communities. The managerial interviewees celebrated this aspect of globalisation as it stimulated interest in alternative glocal structures, which they believed mutuals were uniquely positioned to exploit. In particular they cited the aspiration for some control over the activity of corporations and the yearning to retain money within the local economy. Therefore the contradictory debates surrounding globalisation creates a tension within mutuals, which initially helped to justify demutualisation but latterly its extremities have permitted an opportunity to redefine mutuality, as a viable and less chaotic alternative to neo-liberal capitalism.

## **10.6 Summary and Conclusion**

On reviewing the components of mutuality it is apparent from the survey findings that members have more in common with managers than with carpetbaggers. Members stressed the reciprocity delivered through branches, especially the quality of member service. Implied within this is a resistance to a sales lead service, with only a cursory regard to a client's requirements. Management broadly shared these sentiments, but they feared an increasingly commodified marketplace might marginalize this type of provision. In contrast carpetbaggers presented the concepts of mutuality as an explanation for the systematic decline of mutuals. They saw trust being abused, doubted the benefit of longevity, believed reciprocity should be commodified, and thought caution concealed inefficiency and ineffectual management.

The presentation and delivery of these components has affected the relationships within

mutuals. Carpetbaggers tend to adopt a tautological logic that building societies have behaved in an un-mutual way, and that mutuality is an inherently inefficient system when compared to joint-stock companies. Moreover they have equated mutuality to democracy and argue that this should be employed to destroy mutuality. The surveys indicated that carpetbaggers have enjoyed some success with these arguments among members, but generally there are high levels of satisfaction with the performance of building society management and support for mutuality. This is strongest among those that perceive themselves as members, suggesting that in lieu of the protection ensured by non-transferable ownership, that education and knowledge about mutuality is essential to its continuation.

Of the three theoretical explanations for the condition of contemporary mutuality, the empirical evidence does not support the functionalist proposition. Indeed the members strongly rejected any assumption that mutuals are either too small to survive or too big to care about members. These findings expose the extremist nature of the carpetbaggers' functionalist interpretation. For if size is not the automatic precursor to success, then their discourse is reduced to capitalist ideology and a Spencerian, and by implication a 'natural phenomenon'.

The evidence also partially refutes the narrow Marxist analysis that demutualisation was caused by managerial appropriation of resources. Though there is some evidence that some executives were motivated by greed and desire for greater social status, the proposition does not explain adequately why demutualisation only occurred among a limited number of institutions in the 1990s. Nor is there clear support for the interpretation that professionals have sequestered credit unions; hence I reject the concept of defined cleavage between instrumentalists and idealists. The mixture between volunteers and professionals did not elucidate any strong distinctions as many volunteer board members wanted professionalism to improve the service to members, whilst many paid staff were concerned about becoming detached from members.

Although complex, the 'embeddedness thesis' is supported by the majority of the evidence. First, the state has on numerous occasions attempted to define and prescribe the activities of mutuals, often through a desire to secure regulatory clarity across the financial sector. However, this has usually meant making mutuals conform to capitalist

conditions. Although some interviewees were suspicious of politicians' motivations, it is equally likely that ineptitude and ignorance of legislators and regulators were responsible, as the predominance of capitalist legislation eventually became the norm and somewhat inevitably resulted in unsuitable mutual laws.

What transformed this process was the advent of 'hypercapitalism' in the 1980, with the rise of neo-liberal economic policy, in the guise of Thatcherism, and globalisation. Thatcherism polarised public opinion and established an intellectual and cultural environment in which demutualisation could occur. Mutuals were undermined both through pejorative language which described them as quasi-socialistic, and internal class base division, as the middle class began to assert their ownership 'rights'. Within building societies the carpetbaggers adopted the narratives of New Social Movements as they sought to transform the societies. This conflict was given further impetus by globalisation with its seemingly functionalist logic emphasising the importance of size, while simultaneously increasing insecurity for individuals. Carpetbaggers employed these arguments to explain why collective responses were invalid, and building society managers pursued institutional security through demutualisations and ultimate merger. However, hypercapitalism caused considerable alienation and members began to express a preference for a more inclusive and connected society, a view identified and employed by mutual managers. This apparent cultural shift to a glocal society has provided mutuals with an opportunity to reaffirm their values and attract members interested in regaining a sense of community. If this trend continues it is conceivable that mutuals will become re-embedded within society, and hence the paradox of mutuality in the late twentieth century will be seen rather as an exemplar of the paradox of globalisation.

## 11 Conclusions

The central aim of the thesis was to explain the paradoxical development of mutuality at the turn of the millennium; specifically it contrasted the fortunes of building societies and credit unions. Lacking a sociological literature that I could identify, my initial focus was to generate a conceptual appreciation of mutuality and an interpretative applied model. In chapters 3 to 5, I outlined how building societies and credit unions had evolved from their original manifestations and the historically and theoretically informed interpretations that had been developed to explain this phenomenon. Two meta-narratives emerged. The first, functionalist discourse assumed that the growth and eventual demutualisation of mutuals was an outcome of expanding organisations, the pursuit of which was caused by the requirement to remain competitive. In contrast a Neo-Marxist inspired view saw demutualisation as a means whereby managers appropriated the resources of cooperative entities. However, neither of these theories was entirely supported by the empirical research presented in chapters 7-10. This was primarily because they were unable to explain why demutualisations occurred at the end of twentieth century, why the process was not universal, or why the last successful vote on conversion was in April 1999. The latter question was relevant because it contrasted the discrepancy between the functionalist inevitability thesis, against the satisfaction and goodwill towards building societies expressed in the member surveys.

### 11.1 Growth by crisis and dismissal of functionalist theory and incompleteness of Neo-Marxist perspective

The weakness of the functionalist interpretation is that assuming linear progress towards an inevitable outcome fails to explain alternative outcomes. Exemplifying this analysis, Ferguson and McKillop (1997) built upon Berthoud and Hinton's (1988) instrumentalists versus idealists' dichotomy, to state that mutuals move through phases of increasing professionalism. This is often perceived as instrumentalism, but there was insufficient evidence to support the proposition that professional staff were more instrumental than volunteers. Where I hold that Ferguson and McKillop (1997) are correct is in their assumption that mutuals are affected by actions and attitudes of external actors. Having made this observation it is therefore surprising when they

present their professionalisation model in almost evolutionary terms. As chapter 4 indicates, moves to professionalism among British, especially non-Scottish, credit unions were not in response to a rapidly expanding sector; rather it arose from the perceived failure of the movement by observers from America and other cooperative forms (Swoboda 1999, and Jones 1999). Thus the changes instigated in credit unions which brought about increased professionalism, were responding to crisis, not part of 'natural' growing pains.

More generally crisis is the backdrop to many of the transformations in the history of mutuals. A pattern emerges of prolonged periods of quiet acquisition followed by a scandal involving either or both allegations of fiscal impropriety or managerial ineffectiveness, of which the outcome is a phase of turbulent reform, often imposed by external forces, most notably the government. Through such an interpretation crisis should be viewed positively, as it invariably results in mutuals reconnecting with mutuality and their members' interests. Both of the transformations in building societies and credit unions assessed in this thesis have displayed evidence of this pattern, suggesting that mutuals' development is propelled by a crisis to a new consensus, as opposed to any organic and systematic growth. It may seem ironic and contradictory that organisations created to bring stability to members' lives evolve by massive intellectual upheaval. However, as Kropotkin (1904) argued, organisational stability eventually causes managerial complacency and detachment, which requires a 'shock' to stimulate reform. Demutualisation was both a response to a crisis that began with market liberalisation, and ultimately became a crisis, forcing building societies to address mutuality or convert. It could be argued that credit unions' crisis was spurious or questionable but the consequences were significant.

By empirically and theoretically strengthening Kropotkin's (1904) 'crisis' thesis of mutuals' progress, this implies a dismissal of evolutionary interpretations and causality being linked to its outcome. One facet of crisis is that its resolution is unknown by those engaged in it, thus suggestions that credit unions changed to become more professional is a result of crisis, not an explanation for change. Consequently the functionalist narrative is theoretically problematic as well as empirically unfounded.

Though there was an undoubted appropriation of resources by building society

managers, this is an insufficient explanation for demutualisation. Barnes' (1984) and Hird's (1996) descriptions of a gradual enclosure of assets highlight the accumulation of wealth and security achieved by managers. However, if life was so pleasant and uncomplicated why did some managers pursue demutualisation? Opportunism simply will not suffice. Returning to causality, something must have altered the attitudes of these alleged complacent 'fat cats'. Consequently the neo-Marxist perspective is incomplete because it lacks a conceptual frame, in common with the functionalist narrative it is overly deterministic, simplistic, and exists in a vacuum. Any analysis must also consider cultural and societal shifts.

## **11.2 Assessing the Embeddedness Thesis**

As stated by Dodd (1994), the main weakness of Polyani's (1950) concept was the separation between the substantive and abstract economy. Harvey (2000) disputed this, holding that there was a mutual conditioning between economics and society. However, Harvey's analysis requires further elaboration, as the economy is itself constructed on the basis of social relations. It neither remains monolithic nor unaffected by society. Therefore mutuals are currently operating in a society, which as discussed in chapter 5, underwent a dramatic upheaval in the late twentieth century.

Through the embeddedness thesis it is possible to re-evaluate the historical development of mutuals. Chapter 3 outlined the gradual embedding of building societies into the corporatist state, culminating with the JSA in the 1970s. However, corporatism was implemented unevenly and did not always include the non-indigenous population. In a parallel of the first building societies, excluded migrants unable to access existing provision established credit unions. So at this stage building societies were firmly embedded within the corporatist state, while credit unions lacking a legislative frame were un-embedded. Eventually, as the state began to address the needs of these marginalised populations, credit unions were able to secure some legitimacy. Yet before there was time to earn acceptance and become embedded, capitalism changed. In a societal limbo credit unions adopted two apparently divergent strategies. At one extreme the industrial credit unions sought acceptance by replicating capitalist concentration on exchange and minimising the intangible communal elements,

becoming known as instrumentalists. In contrast others sought embeddedness within their communities. These 'idealists' stressed intimate reciprocal values and eschewed professionalism, as it signified an endorsement of capitalism. These two approaches suggest that embeddedness can occur in various ways and organisations can be embedded into differing sections of society. It is also possible that being embedded in one part of society, precludes or limits embeddedness in another. Therefore the debate within credit unions was a struggle for legitimacy, only moving towards resolution by a government seeking the incorporation of them into their network of delivery agents. To ensure norm and mission compliance, this action involves the dislocation and reformulation of any community embeddedness. One of the means to achieve this is the imposition of sometime excessive regulation that forces credit unions to become more professional. The transition was partially facilitated by disgruntled idealists who, as noted in chapter 7, began to question the involvement and motivation of the local state. The attempted 'capture' of credit unions by 'anti-poverty' workers, can be viewed as part of a wider ideological conflict between the local and national state. In such a scenario idealism and instrumentalism become meaningless titles, as credit unions were caught between street-level bureaucrats and policy-making civil servants. Yeo and Yeo (1988) show that this reflected the experience of other cooperatives. The eclipse of the local state analysis by the policies of New Labour gave a renewed voice to the cooperators that populate credit unions, and who simultaneously hold instrumental and idealistic perspectives.

Such an analysis of credit union development should avoid the temptation to seek links in the disputes between terminating and permanent building societies. No historical evidence was found that demonstrated governmental preference for the latter, on the contrary the Royal Commission in 1872 endorsed terminating societies. Partly this was a function of the laissez-faire attitude, as support for working-class self-help relieved the government of any responsibility. Apart from the occasional series of scandals the state showed minimal interest in building societies until 1918. The Bolshevik revolution changed this and building society leaders moved swiftly to deter any disembedding. So in contrast to the other mutuals, particularly cooperatives, building societies were tolerated, and occasionally encouraged. The three main reasons for building societies' acceptance was their paternalistic management, a higher proportion of middle class members, and activity that did not challenge capitalists' interests.



Successive scandals meant that local leaders usually managed building societies in a professional manner. In an age of deference this ensured effective power was withheld from members. Although sporadic outbursts of member agitation occurred, the stability of most societies resulted in a mutually beneficial relationship, specifically to the emerging middle classes who were unable to access housing finance from banks. Unlike the working class cooperatives who seemed to inhabit the values of October 1917, it was believed that house ownership brought stability, which meant they were less likely to revolt.

The symbiotic relationship between members and management only began to break down with the erosion of deference in the 1970s, and the subsequent expansion of banks' services into personal finance. The latter involved the lifting of restrictions on banks, while building societies remained constrained. Through this banks were able to exploit the marketplace unencumbered by competition in their specialist area, thereby exposing building societies as 'inefficient' because they were unable to respond swiftly to a changing environment

### **11.3 Disembedding the mutual in the era of hypercapitalism**

Originally used by Krieger (1986), hypercapitalism represented the imposition of neo-liberal economics from the late 1970s onwards. In Britain this included Thatcherism and recently globalisation, see 5.3.1 and 5.3.2. Unlike previous incarnations of capitalism, hypercapitalism opposes direct competition from most alternative economic forms or interventions, primarily it has emasculated the state and denationalised its assets. My contention is that hypercapitalism has also destabilised mutuals resulting in their demutualisation. Therefore as the legislation that enabled demutualisation was enacted in 1986, I would add this to the Edgell and Duke (1991) typology of privatisation.

Upon reviewing the literature and assessing the empirical evidence, hypercapitalism has sought to neutralise mutuals in a number of interrelated and sometimes superficially contradictory ways:

1. Commodification of the personal
2. Discredit and abasement of the mutual
3. Crypto-utopian discourse
4. Creating sites of residual activity/resistance

### 11.3.1 Commodification of the personal

From Polyani (1957) onwards, authors have asserted that exchanges between social actors are becoming increasingly commodified. These are formalised on capitalist terms with the aim to make a profit. Williams (forthcoming 2002) challenged this proposition, arguing de-commodification was occurring both in the abstract and substantive economic spheres. However, lack of evidence has not deterred proponents of the commodification thesis, with Harvey (2000) arguing that relationships were disembedding and being replaced with commodified exchanges. This was particularly acute in monetarised exchange where distancing detached personal obligations from physical transactions; even Williams conceded that payment had become a substitute for trust. Financial mutuals were therefore more likely to be prone to the effects of commodification than other institutions, as, the supplanting of trust makes it more difficult to assess the non-tangible benefits of mutuality.

Much of the trust literature compares trust in *gesellschaft* and *gemeinschaft*, assuming abstract trust was reliant on reputation and predictability. This implied a lessening of trust and withdrawal towards a purified form of *gesellschaft*. As Sennett (1974) commented, this trust could have a serious effect on society, as social actors dismiss institutional endeavours to engender trust, presuming it lacks emotional reassurance. If occurring it would be expected that mutuals, which are reliant on trust to offset asymmetries in the knowledge relationship, would be affected. However, the members interviewed expressed high levels of trust in their mutuals, contradicting the views of carpetbaggers. This suggests that the impact of commodification is an important independent variable on the nature of abstract trust and subsequent attitudes towards institutions that are dependent on a monetarised loyalty.

Through the increasing importance attached to money, mutuals have had to 'prove' that they produced greater returns than joint-stock companies. This additionality earned the

sobriquet the mutual dividend, in itself an acquiescence to capitalism. Furthermore, the mutual dividend has to be presented in interest rate differentials, not branch retention or other non-commodified services. This potentially affects reciprocity as the members' surveys stated that the quality of the interaction was considered a major benefit of mutuals. Moreover reciprocity counterpoised the depersonalisation of services underway at banks. Yet within building societies the advantage of reciprocity has been challenged by carpetbaggers, who argued that time spent 'chatting' with members should be measured and invoiced, believing that efficiency and subsequently competitiveness was being undermined.

Commodification also affects longevity, as concentration on price enables banks to temporarily compete with building societies and create churn within the market. This has a detrimental effect because length of membership with a mutual was correlated to extent of commitment to mutuality. A paradox of churn is that the banks' attitudes to longevity are not economically logical; churn causes a greater turnover of customers, which by definition is less efficient than customer retention. Commodification has little relationship with efficiency but the pursuit of growth destabilises and disrupts other organisations, specifically those with lower costs because they seek to employ non-commodified delivery mechanisms.

Caution is also affected by commodification, for demutualisation is the replacement of collective provision with a monetary asset for an individuals' utility. In such circumstances commodification is 'better' than shared protection, because in an unstable world only money can guarantee security. It is this that motivates many carpetbaggers who believe they can receive a higher return on their investments than they could through prudent building societies, especially as stock markets were rising sharply during the demutualisation frenzy.

Commodification has also affected democracy. The issuance of windfalls is compensation for surrendering membership and ownership rights based on the principle of one member one vote. In effect members are being paid to forfeit democracy. Although Williams (2002 forthcoming) may be correct about the limited extent of commodification the narrative is sufficiently powerful to undermine mutuality. However, the members' surveys indicated widespread support for reciprocity, alongside

requests for the opportunity to vote on conversion, demonstrating that non-commodified values are present even within monetarised exchanges. This was most pronounced in mutuals located within working-class communities, whilst the growth of credit unions and the continued survival of building societies indicate that non-commodified exchange exists even within the abstract economy. However, the presence of a counter impulse suggests that the dichotomy between commodification and non-commodification is highly complex, with each supporting and conflicting the other. Academic distinctions do not reflect the reality as experienced by members who seek the benefits of both. What should be noted is the existence of a class sub-text, with the middle classes more prone to commodified exchanges and hence demutualisation, than their working class counterparts, who continue to emphasise the importance of reciprocity.

### 11.3.2 Discredit and abasement of the collective

Yeo and Yeo (1988), and Killingback's (1988) historical review detailed how capitalist interests in the 1930s had undermined mutual interests, a process renewed by hypercapitalism. Not only were mutuals' activities restricted, but as discussed in chapter 10, building societies were required to comply with capitalist regulation without the freedom that this normally entails. The exploitative nature of capitalist companies has resulted in increasing regulation aimed at protecting consumers. Over time the costs for this regulation have been transferred to those being regulated, paying both for the internal cost of compliance and the regulators operating costs. Capitalist companies often begrudge these charges but accept them because they are universally applied. In contrast, mutuals are engaged in low-risk investment and business management where the likely subversion of member interests are diminished, yet they have to share the burden of regulation. In effect, mutuals are being denied the opportunity to maximise the competitive advantage inherent in mutuality, and are being forced to replace reciprocity and trust with bureaucratised relationships. Thus mutuals are subsidising the risk driven joint stock companies and having their market advantage neutralised.

In chapter 3 Barnes (1984) identified the contradiction of the regulator in closing the smallest societies who happened to have the lowest managerial expenses. Similarly the FSA has promoted larger credit unions as the expense of smaller community societies,

without any evidence of an efficiency advantage. After all it is likely that voluntary organisations have lower costs than those with professional staff, but from the regulator's perspective volunteers are considered a higher risk because they are sometimes unable to process the formalised regulation system. Yet the most notorious collapse of a credit union, at Camberwell, was previously held as a model society because it employed staff and had premises.

Usage of language also had an impact as the employment of capitalist lexicon detaches members and staff of mutuals from the meaning of mutuality and alters the emphasis of the business. Once the concept of profit is accepted the pathway to tangible ownership and returns on investment are exposed. Finally regulation has interfered in the objectives of mutuals by designating them as 'for the poor'. Once imposed it politicises attempts to pursue sustainability through attracting members from across the social spectrum. Distinguishing mutuals in this manner portrays them as second class institutions and ultimately, as occurred to credit unions, can result in ghettoisation. Meanwhile capitalist organisations are unencumbered by these moral guidelines, able to act in the shareholders' interests and remain competitive. Therefore mutuals are expected to perform at a higher fiscal and moral standard than joint-stock companies, having both to engage in social activity and offer competitive products. This marginalisation and containment of mutuals caused frustration among the managers interviewed and ultimately results in an artificial divide between idealism and instrumentalism.

Debates about the plurality of mutuality propagated by 'idealists' have a debilitating effect when employed by supporters of demutualisation. The ambivalence of idealists was apparent in the attitudes of BSMA and Mutual Members briefly discussed in chapter 9. This allowed carpetbaggers and other critics to develop another means of discrediting mutuals, through the concept of 'hypermaturity'. Hypermaturity begins from the premise that mutuals' prime objective is to behave mutually, of which democracy is the main expression. Furthermore as an idealised form hypermaturity assumes mutuals should deliver equality of service to all members, regardless of needs and risks. Hence those that offer variable rates dependent on investment levels are criticised for acting un-mutually (Barnes 1984). Following hypermaturity can affect the economic status of the mutual and here carpetbaggers are quick to highlight

perceived weak performances. For example Nationwide's decision to offer universal mortgage rates which can be seen as hypermutuality, was greeted by derision by carpetbaggers when the society's share of the new mortgage market collapsed.

However, it is regarding democracy where the hypermutuality argument has centred. A feature of demutualisation votes was disputes regarding their fairness. Beyond accusations of leading ballot papers and the behaviour of staff, carpetbaggers believe building societies should remain neutral during these elections. They argued that managers should act as returning officers not candidates because of their influence over members, an interpretation confirmed by the surveys. If managers insisted on intervening carpetbaggers questioned the validity of mutuality, inferring that mutuals that do not act hypermutually should demutualise and attempts to retain mutual status were a means to maintain the status of management. This desire for a purer democracy was connected to the 'necessity' for economic equality within mutuals, so that carpetbaggers could claim that the mutual form was unsustainable. Rather it was carpetbaggers' concept of hypermutuality which placed impossible demands on mutual managers.

Abasement of mutuals was accompanied by the policies of hypercapitalism to discredit and in some instances destroy collective experiences and impulses. Privatisation was not just concerned with the removal of public assets; it also sought the privatisation of the self, which was reinforced by policies to increase mobility (Williams 1983). This process transferred risks to the individual who were encouraged to engage in self-reliance, while the rise of mobility detached social actors from their communities. For mutuals this threatened both reciprocity, as the links between individuals declined, and solidarity. Furthermore, structural shifts in post-Fordism and post-modernism ruptured existing social bonds, which caused distancing (Giddens 1990). The combined effect was to undermine personal trust between individuals and replace it with abstract trust. However, the process was not universally welcomed as members still valued interaction and wanted to retain local branches. Equally the collapse of community threatens the longevity of commitment, as according to Mark cooperative values are reinforced by protracted '*cultural disproportionate prior exposure*' (2002:327). Mark shows that as cooperation was rewarded by society, cooperators had a higher social standard than non-cooperators (called defectors). Thus if a higher status co-operator interacted with

any defector, the defector would imitate the cooperator, as the latter was socially more attractive. Mark described this as an evolutionary imperative to cooperate. Although universally applicable Mark acknowledged that the effect on cooperation was unknown in a society where communal bonds are disrupted and individualism is given higher status, thereby resulting in fewer opportunities to interact with co-operators. This analysis indicates the necessity of longevity to cooperation, while noting the potential threat caused by hypercapitalism.

### 11.3.3 Crypto-utopian discourse

Recently Stager-Jacques created 'crypto-utopia' to describe '*any form of thought and practice which treat perception, value and/or belief as hard reality*' (2002:29). Having reviewed the arguments employed by carpetbaggers this neologism encapsulated much of their thought. Aspects of crypto-utopianism are prevalent in comments that elevate the sanctity of market and an insistence that organisations must conform to capitalist modes of behaviour. Typifying this approach was the criticism that mutuals refused to partake in exploitative client activities, as discussed, this was complimented by criticism of un-mutual behaviour for those that did. In such circumstances caution is viewed as being risk adverse and therefore irrelevant or uneconomic. An important characteristic of the neo-liberal narrative is the comparison between the staid cautious building societies and the dynamic, innovative and enterprising joint-stock companies. Evidence of this was apparent in developing the discourse for demutualisation, where the entire process of application through to the launch was concerned with raising expectations before an exciting dénouement. Crypto-utopianism is also employed when comparing the performance of capitalist organisations, as Llewellyn (1997) found when examining literature on joint-stock-companies and mutuals. This usually involved contrasting an idealised form of joint-stock company against the actual performance of mutuals, thereby 'demonstrating' that mutuals were less effective.

The crypto-utopian discourse is evident in globalisation arguments that assume it is beyond the control of states (Ohmae 1990) or that it is a process of universalism. Not only did Robertson (1992) theoretically reject this, but also building society members dismissed the implication that regional societies could not survive in a global environment. Similarly the positive image of building societies among members

confirms Newbery and Stiglitz (1981) argument that reputation can reduce costs. Smaller building societies earn business based on the implicit trust of the phrase building society, which should theoretically be more efficient than having to expend a greater proportion of resources on market awareness. Equally when including dividend, the cost of capital was higher for joint-stock companies. The design of accounts which show dividends below profits obfuscate the true cost and avoids comparison with building societies who must list their costs for raising finance, such as paying interest on credit balances and maintaining branches, as expenses.

The ultimate usage of the crypto-utopian discourse was in the sequestration of NSM language by carpetbaggers. This counter-NSM assumed the identity of a resistance movement fighting for freedom from an oppressive regime, when its argument was for the imposition of hypercapitalism. Such a tactic was described as 'Starbuckstopia' by Fournier after the practice of executives who *'sucked from under our feet all grounds for oppositional practice, any 'alternative' being inexorably drawn into reproducing what it was meant to overthrow'* (2002:189-190). But carpetbaggers went further and used the discourse of opposition to present capitalism as the alternative. Thus hypercapitalism becomes the revolutionary movement attempting to overturn vested interests of corporate capitalism and mutuality, a process that according to their ideology is inevitable and on going. Therefore mutuality has to address external threats both in the competitive and ideological sphere combined with internal challenges that demand adherence to hypercapitalism or hypermutuality.

#### 11.3.4 Creating sites of residual activity/resistance

It is perhaps unsurprising that *these systematic* attacks on mutuals and other alternative perspectives to capitalism and the gradual usurpation of the vocabulary of opposition have created sites of resistance. Unlike the three previous factors, this is an unintended by-product of capitalism. However, it can also be presented as a deliberate structural outcome in which to reduce social costs to compete globally, non-profit making commodified spheres have been transferred to the non-commodified sector. In this interpretation credit unions were permitted and granted space to develop because they served an excluded group that the banks were ignoring (Dayson et al 1999). Therefore support for credit unions by the government offsets the worst excesses of



hypercapitalism.

There are a number of weaknesses with this argument. First, it cannot explain why the most successful credit unions have been among employed groups, such as the police, which is not a residual occupation. Second, expansion is related to geography, with the fastest growing credit unions clustered in the West of Scotland (Donnelly & Kahn 1999). Here it was thought growth was connected to a strong socialist tradition and communal bonds. Third, the empirical evidence suggests few members join because they are excluded, since most have bank accounts, instead they want to save locally with people they know and trust. Though credit unions and even building societies may originally be allowed to trade in certain markets, the nature of the service they provide is attractive to many outside these groups. This empirically informed analysis endorses Williams (2002 forthcoming) theoretical perspective that participation in some 'residual providers' is through agency not exclusion. This was epitomised in the demutualisation vote at Leek United BS where the community rejected commodification in favour of reciprocity and solidarity, demonstrating that it was possible to be embedded in a locality, employ non-commodified arguments and be successful. The result showed that financial globalisation and its effects were neither inevitable nor even preferred by members. Moreover, the members surveyed rejected the globalisation thesis, a view confirmed by the experience of mutual managers.

The glocalisation argument presumes that the extremities of globalisation are forcing a withdrawal into communities to search for security (Castells 1991). Undoubtedly this is occurring as some of the interviewees were concerned about the effects of globalisation, but the glocalisation thesis is predicated on the assumption that globalisation has occurred, when it is equally feasible that globalisation has not been as all embracing as its supporters argue. Instead the desire for interpersonal relationships based on reciprocity could be a function of the disenchantment with bureaucracy and abstract interactions highlighted by Weber. This alienation may have caused a 're-imagining' of locality as social actors began to adjust to a world where the state had been hollowed out (Featherstone and Lash 1995). Regardless of organisational type, respondents appeared to prefer immediacy and consistency in the delivery of supposedly commodified products. Even among carpetbaggers there were those that preferred interaction and wanted to preserve at least one mutual with which to invest. In

conclusion the general public may not understand mutuality but they value its components.

Rather than mutuality being in terminal decline, it poses an ideological challenge to capitalism when supposed sites of residue become sites of resistance. For if due to their organisational status mutuals attract new members because of the type of service they provide, this raises doubts about the efficacy of hypercapitalism and the legitimacy of its discourse. Mutuals suggest there is an alternative and even in its weakened form collectivism continues to have a resonance.

### 11.3.5 Final Comments

Birchall requested that researchers into mutuality should address three levels of enquiry: First, the '*concept of mutuality as a synonym for fraternity or solidarity*' (2001:245); second, the impact of the state on mutual forms and the potential of mutuals; and third, the current situation including demutualisation. While accepting Birchall's philosophical and contemporaneous aspects, I would suggest broadening the second area of research to include how the economic structure of capitalism affects mutuals. Notwithstanding this, using Birchall's taxonomy this thesis has shown that mutual solidarity requires a culture of trust, reciprocity, longevity and caution to be fully effective. These need to be embedded within society, thereby becoming acceptable norms of behaviour. Without this mutuality succumbs to commodification and the effects of individualism. Empirical research has been employed to demonstrate that demutualisation is not an inevitable function of size, rather it is a reaction to changing cultural and economic activity, heavily influenced by class, which initially either rendered mutuals meaningless, or restricted them to non-commodified groups. However the alienation felt by social actors has caused a counter-culture to develop which financial mutuals are beginning to exploit.

Attempts to undermine mutuality and particular forms of mutuality by hypercapitalism have largely failed. Whilst true in general at present, this should be tempered by lower levels of support among the middle classes. The member surveys showed clear evidence of middle class support for demutualisation, and confirmed that they were the

main beneficiaries of both this process and privatisation. It may be that just as in Scotland's credit unions, mutuals are stronger in communities where values of reciprocity and collectivism remain culturally prevalent. The decoupling of middle classes from mutuality is possibly related to the increased penetration of the profit motive among this class (Williams and Windebank 2001). With far more middle class members as a total proportion of the membership in building societies than credit unions, this may be a contributory factor in the divergence in development. Through this class analysis building societies have suffered from demutualisation because of the changing behaviour of the middle-classes, as they became proponents of individualism and privatised lifestyles. This shift is associated with Thatcherism, and can be viewed as a major cause of demutualisation.

The components of mutuality outlined in chapter 2 have been assailed by hypercapitalism. Attempts have been made to separate the interests of members and managers and destroy the trust relationship. Furthermore, depersonalising financial services to reduce costs has enabled hypercapitalism to define reciprocity as an expensive cost, not an essential element of interaction. The commodification of reciprocity has enabled mutuals' critics to claim it is an unnecessary luxury. By presenting capitalism as 'thrusting' and 'dynamic', mutuals have been pejoratively cast as 'pedestrian', 'hidebound', and cautious. Yet members value the security of building society investments and attempts to draw savings into equity investment, initially through highly desirable returns have wilted with the fall of the stock market. Meanwhile, the benefits of longevity have been disputed by carpetbaggers and challenged by the patently inefficient practice of encouraging churn. Despite the criticism, mutuality continues to cause difficulties for capitalism, presenting a viable alternative corporate economic model dependent on organic growth and customer ownership, as opposed to a frenzy of activity and exploitation.

Unsurprisingly given the threat to mutuality's components, the cooperative organisational model has tottered. Lack of solidarity between classes; a virtual absence of educational exchanges, exacerbated by a diverging of knowledge between managers and members; and the perversion and consequent commodification of democracy, have all combined to disrupt mutuals from within. Most importantly the transferability of ownership breached the philosophical origins of cooperation and created an

unsustainable structure. However, building society history shows a different attitude to transferability, as terminating societies were predicated on the distribution of assets upon closure. Considering this historical reflection the introduction of the signaway signals a confluence between cooperative and building society thought. Even without external factors mutuality remains an essentially contested concept, with members almost entirely reliant on the ability of managers to operate their mutuals and communicate effectively with members. Therefore the concept of 'asymmetrical mutuality' best describes the form of mutuality being practiced by contemporary professional mutuals. This will only function if the components of mutuality are prioritised alongside an organisational structure that enables mutuality to be economically effective.

Regarding the paradox of mutuality it seems this went beyond inherent contradictory forces within globalisation, as the attack on mutuality was part of a systematic challenge to all perspectives offering alternative centres of power to capitalism. The period of demutualisation followed the rise of hypercapitalism and its crypto-utopian ideology, which while permitting residual providers sought to vaccinate more mainstream services. Unfortunately for capitalism the process alienated many people who joined entities incorporating reciprocity and human interaction. *Ironically this may ensure the continued existence of mutuals, as their struggle for survival has sharpened their delivery of mutuality, which in turn makes them more attractive to the public.* Ultimately mutuals understand More's maxim that stability and freedom from anxiety equals happiness extends beyond a utopian dream.

Finally a note on methodology. This thesis included a relatively new method; cyber-ethnography. It has many limitations, but a previously unrecorded factor was the effect that the quality of bulletin board software has on the ethics of the research. As more advanced programmes list all the names of on-line users, regardless of whether they were active or lurking, this releases the researcher from the practice of unmediated and quasi-covert fieldwork. Hopefully this insight will inform and enhance the quality of this new methodology.

## 11.4 Areas for further research

As mentioned in the introduction there are three areas where limitations of space prevent more detailed discussion. Although internal power relationships have been a recurring theme, the thesis has mainly examined them in relation to external challenges. Therefore an area in need for more exploration is the relevance of the sociological literature on power to mutuals, and whether new interpretations can be formulated, perhaps using the currently fashionable actor-network theory (ANT)?

I have deliberately avoided attempts to address the issue of community; rather the thesis has mainly addressed mutuality from the perspective of the individual. There is a vast literature on community and one of the next stages could be to analyse the sense of shared experiences or communalities.

Historically work needs to be undertaken into the early British credit unions, who were they and how did they arise? Connected to this is a requirement to assess the parallels between the formations of mutuals. For example, based on current evidence I suggested they arose from excluded communities; can the historical evidence confirm this? Alongside the credit unions have been popular among police forces. There is potential to integrate this into the literature on 'cop culture', and occupational communities.

There is a strong class correlation to support for mutuality that requires further qualitative research. What has happened to the middle-classes that make them less prone to non-commodified relationships? During the surveys a number of middle-class respondents were concerned about the effects of globalisation on their lives, and some carpetbaggers expressed similar views. Could labour casualisation be moving up the class structure and does this indicate a renewal of interest in collective provision by the middle classes?

Although gender was barely discussed, the fieldwork did expose some intriguing dichotomies. Women seemed less committed to building societies, yet they were often dominant within credit unions. Research on gender and financial institutions has tended to examine the workplace environment (Halford et al. 1997). Arguably the gender aspects of the relationships between the mutual and its members requires further

enquiry.

Carpetbaggers gave a completely different perspective to the NSM literature. Two aspects worthy of further study are the rise of counter-NSM that endorse capitalism, such as carpetbaggers and the Fuel Protesters. Also, does the use of technology enable a privatisation of NSM campaigns, as maximum benefit can now be achieved without any physical interaction? In a related topic should Olson's free rider principle be revisited in view of technological shifts?

Apart from the surveys contained within this thesis, there have been few systematic studies of members' attitudes, including those in other mutual forms, such as cooperatives, friendly societies, and insurance companies. Funding should be sought to conduct a representative survey. Moreover, the opinions of those not in mutuals should be collected and analysed. Why people do not join will be as instructive as to why they do. Another area missing from the thesis was the literature on consumption. Like any other product, financial services are increasingly consumed. How attitudes to mutuals fit into this topic area would be worth exploring.

The failure to conduct surveys makes it impossible to assess credit unions claims that they are helping the financial excluded. The thesis disputed this assumption and suggested that location of the mutual was a more significant factor. Research could be undertaken into current financial inclusion patterns and how extensive these should be?

Methodologically more analysis is required on cyber-ethnography. Clearer guidelines for researchers are needed, particularly concerning ethical issues. This should follow a thorough review of current literature, to identify further gaps in our understanding.

Finally, the core paradox of the late 20<sup>th</sup> century of mutuality is the growth of credit unions, during the decline/stabilisation of building societies. Further research on how other mutual organisations have responded to hypercapitalism would help to confirm the key argument of this thesis that mutuality must negotiate a continued embeddedness within a capitalist society. This is not predetermined and although mutuals can be severely disrupted by exiguous factors, it can be partially dissipated by embeddedness in local communities

## Appendix A: Details of Main Building Societies Acts

This section outlines the main clauses from the 1894, 1960 and 1986 building societies acts, followed by legislation changes to credit unions in 1994 and 2002.

### Clauses of 1894 Building Societies Act

Section 1	terms of shares and how losses should be met
Section 2	authorised the Registrar to dictate the format of the annual return; insisted that all mortgages in excess of £5000 should be publicly declared
Section 3	insisted that auditors must be accountants;
Sections 4-5	Right of members and Registrar to inspect books and appoint an inspector
Section 6-11	Granted the Registrar power to dissolve a society and decide the process through which these should occur;
Section 12	Banning balloting for advances (thereby outlawing Bowkett- Starr societies);
Section 13	prescribing advances on second mortgages unless the society holds the first mortgage;
Section 14	Limits on borrowing power and excluding mortgages with over a year's arrears when calculating borrowing powers;
Section 15	Provisions as to name & deposits
Section 16	Deposits in and investments in savings banks
Section 17	Extending investment powers;
Sections 18-19	Explanations of 1874 Act
Section 20	Relieving 60 societies from provisions of the 1887 Arbitration Act;
Sections 21-22	Offences by building societies and false entries
Section 23	Outlawing receipt of gifts by officers;
Section 24	Officials as competent witnesses
Section 25	Incorporated all unincorporated societies formed after 1856 (pre 1856 societies continued to be excluded).
Sections 26-30	Forms, annual report, repeal of specific provisions, short title and commencement

## Details of the 1960 Building Societies Act

Section	Purpose	Specific Measures
1 & 2	Rogue Societies	“special advances” must not exceed 10% of annual lending. A new society must have 10 investors pledging £500 each for 5 years.
3,4,5	New societies	Cannot advertise until 1 year’s trading and then only after permission of the Registrar
6,7,9,10	Registrars Powers	Can insist directors put £5000 of the own money into business if the building society changes the nature of its activity. Fix rules on where building societies invest funds
14	Freedom of directors	Limits valuations made by directors which must now be ratified at every AGM and must stop within 10 years
22-37	Member and society	Copy of accounts to all new shareholders and those with over £25 invested. Rules of building societies must include provision on calling of meetings, voting rights and number of members needed to call a meeting. Meetings require at least 21 days notice and no more than 56 and notice sent to all with over £25 invested. In case of special resolutions, requiring two-thirds majority notice must go to all members. Members have a right to vote by proxy. Building society must keep a register of members which can be inspected in certain circumstances (e.g. arrears) or if they convince the Registrar that it is worthwhile.
38-49	Duties of directors	Auditing, supervision, qualifications, presentation of accounts, appointment and retirement of auditors.
40,50,51 and 54	Registrar accounting powers	Can change the format of the balance sheet
52 and 55	Directors	Must declare interests and advances. Cannot receive commission from insurer of mortgages
56 & 57	(Transfer of Engagement) TE and Unions	Members to receive accounts from both organisations (this must be previously approved by the Registrar) and details of directors compensation.
The remainder of the act focuses on penalties, definitions and miscellaneous items.		

Adapted from: HMSO 1960



## Aspects of the Building Societies Act 1986

Aspect of Act	Sections/Schedules	Details
<b>Building Societies Commission (BSC)</b>	Section 1	Act as regulator for building societies
<b>Purpose of a Building Society</b>	Section 5	'Its purpose or principal purpose is that of making loans which are secured on residential property and are funded substantially by members'
<b>Establishment &amp; Constitution</b>	Schedule 2	Rules to establish a building society, constitutional provisions, definitions and rights of members
<b>Authorisation</b>	Section 9 & Schedule 3	States a building society must be authorised with the BSC before its permitted to trade
<b>Lending</b>	Section 6 & 12 Schedule 8	Introduced three classes of assets; class 1 mortgages (90% of all assets); class 2 other assets secured on land; and class 3 unsecured advances. But not more than 5% of assets could be in class 3. However, societies with assets less than £100 million could not engage in class 2 and 3 activities and the maximum upper limit on class 3 is £5,000 per borrower.
<b>Funding</b>	Section 7	At least 80% from individual members and a maximum of 20% from money markets.
<b>Restrictions on Powers</b>	Section 9	Limits the activities of building societies for trading in commodities, securities or currencies
<b>Housing Provision</b>	Section 16	Allowed to own and develop residential property. Limited to societies with in excess of £3 million in free reserves
<b>Subsidiaries and other associated bodies</b>	Section 18	Can create and own an equity interest in subsidiaries
<b>Investor Protection Scheme</b>	Sections 24-30	Contains details of Investor Protection Scheme and Investor protection Board. 90% of liabilities and a maximum contribution of 0.3% of a societies shares and deposits to the fund
<b>Powers to provide financial services and services relating to land</b>	Section 34, Schedule 8	Can offer conveyancing and estate agency services. Financial services included money transmission, personal banking and cheque guarantees
<b>Powers of Control of the BSC</b>	Sections 36 - 57	The BSC can make a series of demands if a building society does not fulfil its obligations. One option is forced

<b>Statement of Principles</b>	Section 45AA	<p>conversions to a company status, others to ask the society to reapply for authorisation, restrict advertising, obtain further information, appoint inspectors, and a system of appeals against these procedures</p> <p>Requires the BSC to publish a list of principles by which it will interpret and operate</p>
<b>Management of Building Societies</b>	Section 45	<p>Sets out the criteria of prudent management which the BSC should take into account. These include management of the balance sheet, risks, and records. The quality, integrity, prudence and professionalism of directors should also be ensured.</p>
<b>Directors and other Officers</b>	Section 58-70	<p>There shall be at least two directors and a chief executive and secretary. Directors must be elected and members are entitled to a proxy form and notice of meetings. 10-50 people (depending on the society's size) are required to nominate a member for election to the board. Directors must declare any interests.</p>
<b>Accounts and Audit</b>	Section 71-82	<p>Specifies the accounting records and systems, requirement to prepare annual accounts and a summary financial statement to be sent to all members. Rules regarding the appointment, qualification resignation and removal of the auditor. Additionally the auditor is required to inform the BSC of any untoward practices</p>
<b>Complaints and Disputes</b>	Section 83-85	<p>Allows for the creation of an ombudsman to adjudicate on disputes between societies and members. Also explains the grounds for complaints and their settlement</p>
<b>Mergers</b>	Sections 93-96, Schedule 16	<p>Societies may merge or TE. A merger requires the approval of 50% of borrowers and 75% of shareholders of those that vote. Compensation to directors has to be approved by a separate vote</p>
<b>Transfer of Business to a Company</b>	Section 97 – 102D, Schedule 17	<p>Building societies were permitted to become companies this requires 20% of all members to vote and 75% of shareholding and 50% of borrowing members to vote in favour. The</p>

conversion procedure must be fair between members who should receive shares and to avoid speculative activity only members of two years or more should receive shares once the conversion is announced. After conversion the company is protected for takeover for five years.

Adapted from BSA (1999) and Hammond (1998)

## Relevant Aspects to Credit Unions of 1994 Deregulation and Contracting Out Act 1994

- Unsecured loans could be offered for four years (previously two) and secured loans were extended from five to ten.
- Repayment periods (maximum two years) can be extended if credit union has a least 10% of assets in general reserves, at end of previous accounting year
- Maximum loan to a member were increased to 1.5% of the credit union's assets
- A members existing shareholding can be used as security for a loan
- A new 'living or working' common bond was introduced
- The proof of an existing common bond will be relaxed, so that the applicants are only required to make a statutory declaration that it exists
- The maximum shareholding by a member was increased to £5000 or 1.5% of total assets

Non-qualifying members should be treated as full members when granting loans

## Outline of 2002 Credit Union Reform Bill

- A. Allow credit unions to borrow money from external sources, other than authorised banks and other credit unions.
- B. Allow credit unions to differentiate between certain accounts by paying dividends at different rates, and to pay dividends more than once each year.
- C. Allow credit unions to provide additional basic services and charge fees (e.g. bill payments).
- D. Make the common bond requirements more flexible.
- E. Establish appropriate regulation on the use of the name Credit Union.
- F. Change the minimum coverage requirements for fidelity bonds.
- G. Allow credit unions to offer accounts that may be held in the name of more than one member.

## Appendix B: Details of Demutualisations

Society	Date of demutualisation	Percentage support from savers	Percentage support from borrowers	Turnout	Route to demutualisation	Method of Distribution	Average Payout
Abbey National	12 July 1989	89.5%	90.7%	64.5%	Stock market listing	£100 of free shares to members plus a share of 750,000 cash shares valued at £1.3 million	£130
Cheltenham & Gloucester	August 1995	95%	70%	N/A	Sold to Lloyds Bank	£500 per member plus 13.544% of balance up to £10,000 for savers	£2,200
Halifax & Leeds Permanent National and Provincial	2 June 1997	97%	97%	70%	Merger then stock market listing	A minimum of 200 shares per member valued at £7.75	£2300
	June 1995	N/A	N/A	N/A	Sold to Abbey National plc	£750 to savers plus 5% of balances up to £50,000. Borrowers & short-term savers received £500 of Abbey National shares	£750
Woolwich	7 July 1997	N/A	N/A	N/A	Stock market listing	450 shares and 4 additional for every £100 invested up to a max. of 2000 shares	£2418
Alliance & Leicester	21 April 1997	96%	97%	70%	Stock market listing	250 shares per member worth £5.42 per share	£1355
Northern Rock	1 October 1997	N/A	N/A	N/A	Stock market listing	500 shares per member valued at £4.70 per share	£2350
Bristol and West	28 July 1997	N/A	N/A	N/A	Sold to Bank of Ireland	250 shares, £500 in cash & 6.5% of balances for savers	£1100
Birmingham Midshires	April 1999	95%	90%	N/A	Sold to Halifax plc	400 shares, £400 in cash & 10% of balances for savers	£1250
Bradford & Bingley	4 December 2000	94%	89%	N/A	Stock market listing	250 shares for all members valued at £2.44	£609.6

## Appendix C: Semi-structured interviews

Contained here is further information on the interviews conducted as part of the thesis.

Below is the list of interviews followed by the generic questions asked.

### Interviewees

Table C. 1 presents details of the 11 building society senior executives interviewed. To ease identification each interviewee has been granted a code based on the geographic focus of their institution, such as BSN1 for the first national building society interviewed. The table also includes the date and how I recorded the interview.

**Table C.1 : Details of Building Society Interviewees**

Interviewee code	Geographic focus	Deciles	Date of interview	How interview was recorded
BSL1	Local	7	5 August 1999	Written notes
BSR1	Regional	4	7 February 2000	Taped
BSR2	Regional	3	14 March 2000	Taped
BSR3	Regional	4	17 March 2000	Taped
BSN1	National	1	20 March 2000	Taped
BSL2	Local	10	23 March 2000	Taped
BSR3	Regional	4	28 March 2000	Taped
BSN2	National	1	30 March 2000	Taped
BSR4	Regional	3	6 April 2000	Taped
BSR5	Regional	3	2 May 2000	Taped
BSN3	National	1	23 May 2000	Taped

Table C. 2 provides details of the credit union leaders interviewed. Again granting them a number has protected each interviewee's identity. The code combines their type of common bond with whether they are an instrumentalist or an idealist (while accepting that this is problematic as most respondents supported both perspectives). Apart from this information and the date of interview other information included is whether they are a paid member of staff or a volunteer director. The identification code is CU for credit union, followed by a C, E, A to describe the common bond (community, employee, associational), and ending with ID or IN meaning idealist or instrumentalist respectively.

**Table C.2: Details of Credit Union Interviewees**

Interviewee code	Type of common bond	Volunteer director or paid employee	Instrumentalist or idealist	Date of interview	How interview was recorded
CUAID1	Associational	Volunteer director	Idealist	5 August 1999	Written notes
CUCID1	Community	Volunteer director	Idealist	20 December 1999	Taped
CUCIN1	Community	Volunteer director	Instrumentalist	31 March 2000	Taped
CUEIN1	Employee	Paid staff	Instrumentalist	3 April 2000	Taped
CUCID2	Community	Paid staff	Idealist	10 April 2000	Taped
CUEIN2	Employee	Volunteer director	Instrumentalist	11 April 2000	Written notes
CUCID3	Community	Paid staff	Idealist	13 April 2000	Written notes
CUCID4	Community	Volunteer director	Idealist	19 April 2000	Written notes
CUCIN2	Community	Paid staff	Instrumentalist	3 May 2000	Taped
CUCIN3	Community	Volunteer director	Instrumentalist	5 May 2000	Taped
CUCIN4	Community	Paid staff	Instrumentalist	19 May 2000	Taped
CUEIN3	Employee	Volunteer director	Instrumentalist	19 June 2000	Written notes



Finally, as discussed on chapter 6 a five other interviews were held, 3 with representatives from trade associations, a former regulator, and a carpetbagger. Table D. 3 contains rudimentary details of these individuals and provides an appropriate code, with TA representing trade association, CB equally carpetbagger, and REG meaning regulator.

**Table C.3: Details of Other Interviewees**

Interviewee Code	Status	Date of interview	How interview was recorded
TA1	Trade Association	23 September 1999	Written notes
REG1	Former regulator	7 December 1999	Written notes
TA2	Trade Association	12 November 1999	Taped
TA3	Trade Association	7 February 2000	Taped
CB1	Carpetbagger	4 April 2000	Taped

## Generic Interview Questions

Each interviewee was asked specific questions followed by a series of generic topics. This was undertaken to make the interviewee comfortable and tackle some of issues directly relevant to them. The generic questions are designed to stimulate a response and allow the interviewee to express their view of mutuality. The following lists outline the generic questions used in interviews with building society and credit union respondents. The interviewee specific questions and the schedules used for the other interviewee have been omitted in order to protect respondents' anonymity. However, these are available upon request if required.

### Generic questions for building society chief executives

1. How long have you been within the building society sector and what made you join it?
2. What have been your main achievements and disappointments?
3. How do you view the building sector today and does it still have a viable future?
4. What significant changes have there been?
5. What do you understand by mutuality?
6. Has its meaning changed over the years?
7. What is your opinion of the mutual bonus system operated by Nationwide and Britannia's annual mutual dividend?
8. Are there any other innovative means of delivering mutuality that you admire?
9. How difficult is it to be both the manager and employee in a mutual organisation, where your customers are your bosses?
10. What should be the role of the staff and management in mutual (impact of merger with CIB)?
11. Should building societies have a stronger relationship with the co-operative union and should they be non-profit making organisations?
12. What role is there for members?
13. Should members be classified as owners (trustees)?
14. Is democracy, within a building society, help or a hindrance?
15. How effective is accountability in the building society sector?
16. How can members effectively monitor the performance of a building society?

where management has all the information?

17. Isn't there a danger that building societies will be run in the interests of management rather than customers (captured by professionals)?
18. Is there a conflict between the directors' legal responsibility towards future members and current members demands for service/income today?
19. What is your view of carpetbaggers and will they ever go away?
20. How do respond to those that argue that carpetbaggers force building societies to be more accountable to members (rediscover mutuality)?
21. The 1980s and 1990s saw tremendous changes in the building society sector – what is your view on the origins of demutualisation?
22. Another view is that building societies were paternalistic and old-fashioned institutions that needed to change- what do you think?
23. What role did technology play in forcing change upon the sector?
24. In increasingly competitive global financial market do ALL building societies have a future?
25. Finally, is a building society a financial services business that happens to have an alternative ownership structure or a membership organisation that specialises in financial services?

## Generic Questions for Credit Unions

1. Can you tell me about the origins and development of the credit union/
2. In what way, if at all, has the philosophy/strategy of the credit union changed over the years? (Has the purpose changed?)
3. How does the credit union function on a day-to-day basis? And does it adequately serve its members needs?
4. How important are volunteers to the credit union and could it operate effectively without them? Is there a danger of 'burn out'?
5. What is the role of members within the credit union (AGMs participation) and how would you describe the relationship between the members and the board of directors?
6. What is the nature of the relationships within the board and how has this changed over the years?
7. How accountable would you say the credit union is, where the directors hold most of the information?
8. How would you describe the culture and managerial style of the credit union?
9. What image does the credit union have within the community and amongst members?
10. What are the future prospects for the credit union?
11. What does your credit union class as financial viability and do you reach this level?
12. On reflection in what way, if at all, would you have changed your common bond?
13. How difficult is it to survive and grow as a credit union?
14. What do you understand by the word mutuality? And how is it practised in your credit union?
15. Is it difficult to balance the need to operate as a financial institution and the social goals of a credit union?
16. How difficult was the process of registration and how would you describe your relationship with the registrar?
17. There is a body of opinion that believes that the Registrar has restricted the growth of credit unions, what do you think?
18. How do you view the prospect of regulation being controlled by the FSA and in

what ways will this impact on your business?

19. What relationship does your credit union have with the local development agency, and how has this changed over the years?
20. Recently, there has been an argument that development agencies, especially those controlled by local authorities, have encouraged dependency not autonomy of credit unions and have hijacked the movement in order to tackle poverty – what is your view?
21. Another argument is that central government is using credit unions to fight social exclusion, rather than treating them as financial business mainly operating in the voluntary sector? (Has the government asked too much and is it expecting too much)
22. What is your view of the New Model credit union being developed by Liverpool John Moores and ABCUL?
23. How important is a Central Services Organisation to the future prospects of the movement?
24. In becoming more professional, by employing staff, is there a danger that credit unions will lose touch with the members, and how can this be avoided?
25. What is your view of ABCUL and the other national organisations? Do you think that if there had been only one voice the movement would have grown faster?
26. There is said to be two schools of thoughts in credit unions – idealists (small is beautiful, serving the community in a mainly voluntary basis) and pragmatists (operating as a business) – is this division accurate and where would you place yourself
27. Finally, is a credit union a financial services business that happens to have an alternative ownership structure or a membership organisation that specialises in financial services?

## Appendix D: Surveys Methodology

This appendix presents further information regarding the questionnaires, including the justification for the questionnaire design, coding framework, and copies of the questionnaires issued.

### Justification for building society questionnaire design

Q1. When approaching potential respondents the interviewer will initially ask if they have an account with the branch in question. This should prevent the only other alternative response of 'not having an account' being recorded. The question is simple, specific and direct, hence its choice as number one.

Q2. Reliability – The alternative question was when did you join x building society? Although this would have received a more accurate response, it was felt the effort involved in physically checking the passbook would have deterred respondents from completing the question.

Validity – The truthfulness of the responses may be open to doubt, as people will probably provide approximation lengths of membership. However, relativity (i.e. short or long term) not accuracy is the concept sought in this question.

Q3. Reliability – To secure knowledge on what mutuality actually is (a word likely to cause confusion) it was decided to examine aspects of the concept.

Validity - All the correct answers are true – they are statements of fact. The questions are independent of each other, hence the use of 'user' throughout the questionnaire.

Also, respondents may not perceive themselves as members but in contemporary consumer society are more likely to see themselves as customers.

There are no false questions that can distort the results. Although it is possible that some respondents may decide that one response must be false in an attempt to second-guess the researcher. However, those that actually know the answers will get all three correct and those that do not are more likely to speculate.

The validity of 3c is problematic, as members need to have an account for a minimum

of two years before standing for election and also collect a number of nominees. This impacts on the reliability of the answer as those that know these facts may be confused or circle false. However, this is offset for the need of brevity and avoidance of qualifying clauses.

Q4. In effect Q4 is the logical successor to Q3. Q3 examines general knowledge and Q4 attempts to elicit local behaviour.

Validity – The question is both direct and follows an explanatory sentence. It is conceivable that pedants may argue that the question does not precisely specify the elections, but again this must be secondary to directness.

Reliability – The only other logical response is what elections? However, ‘don’t know’ should suffice.

Q4a, Merely a follow-up question on Q4 and check on ‘membership’/’customer’ identity

Q5. This question began as ‘What is the difference between a bank and a building society?’ This was problematic, as it required the respondent to compare two variables, one of which was open to misinterpretation. The question also permitted both knowledge and opinion to be expressed. As stating their constitutional differences and their treatment of the respondent were valid answers. In the new question the purpose is to test knowledge. If respondents believe certain banks are building societies, this will help confirm one of the core propositions of the research (people no longer know what mutuality is).

Q6. Again a specific behavioural question follows a general knowledge one. Providing the respondents don’t conflate question 5 into 6 the answers provided should be reliable. The question is valid because it will be used to establish whether there is any link between attitudes and multiply account holders.

Q7. This question concludes the first section of the questionnaire, which concentrated on knowledge and behavioural questions.

Validity – The intention is to use this data to measure the impact of technology usage against attitudes.

Reliability – As only 10% of households have Internet access, it is probable that the number of responses to this question will be minimal. This low response rate is the justification for the absence of a don't know answer. The other concern is that the terms on-line banking and carpetbagging may not be widely known and this may affect results. However, the suspicion remains that most respondents will answer no to all three questions, leaving only those with specialist knowledge, hence the calculated risk with these phrases.

Q8.to Q10 Examine peoples attitudes to the maintenance of branches in an era of increasing competitiveness and Internet banking.

Q8. Reliability - This question can be seen as problematic in two aspects. Firstly, the usage of a word as subjective as 'convenient' and secondly, the list of options available for answers. The former is justified because the question is about behaviour (i.e. does it opening hours match peoples' life patterns) and is about individual preferences. However, the answers offered may be too prescriptive and they will need to be piloted before their final inclusion.

Validity – This question is designed to be cross-referenced against 9 and 10, in order to compare what people's attitudes about the local branch and their reaction to any closure. Equally important is the need to explore the rise of the 24-hour society and its supposed impact on branches. If the opening hours are mainly inconvenient it may suggest that societal changes rather than competition is driving change in the banking sector.

Q9. Reliability – The start with 'some people say' is drawn from Edgell and Duke's work on Thatcherism. The use of this neutral terminology avoids the reader being drawn to a particular answer. The answers offered also present the respondent with a wide range of choices, including an open option.

Validity – This question will test respondents' attitude to branches within their community and builds on Q8. If respondents state that there are too many and that the opening hours of their local branch are inconvenient this would seem to indicate an over supply of branches open inappropriate hours. This result would support the theory that branches are becoming increasingly obsolete.

Q10. Reliability – This is one of the potentially one of the less reliable questions in the survey as it asks respondents to predict their future action. However, the inclusion of a



‘depends on’ response is deliberately designed to allow respondents a qualified answer.  
Validity – The question was included to test whether people probable actions match their attitudes and crudely gauge the level of loyalty to the building society.

Q11 –13 test the respondent’s knowledge and attitudes towards demutualisation. Their structure is similar to the series of privatisation questions in Edgell and Duke’s Thatcherism research (these questions are also included Q19-Q22). By employing this ordering it will be possible to compare attitudes between demutualisation and privatisation in both this research and Edgell and Duke’s.

Q11. Reliability – The only difficulty surrounds the word ‘process’ which may be too academic for the audience. However, in lieu of a better phrase it has been included. Providing the respondents understand the word the question is fairly robust.

Validity – This is a knowledge question and is asked before any behavioural or attitudinal questions. This ordering helps ensure the validity of subsequent questions in this section.

Q11a is merely an ancillary of Q11 and as an open question raises no reliability issues, although it does reinforce the validity of the previous question.

Q12. Reliability – it was decided to ask all respondents this question because some may not know what demutualisation is but can recall having received shares. The other issue occurs if they confuse a building society with one of the converting insurers. Asking the respondents to name the companies they have received windfalls from should minimize this issue.

Validity – This question is attempting to uncover the extent of windfalls and the likelihood of carpetbagging. A high response rate may indicate support for the argument that the activities of carpetbaggers temporarily reinforce a building society.

12a Reliability – A straightforward test of knowledge question. Space is also provided for opinions giving respondents freedom to comment on the pejorative nature of the word carpetbagging

Validity – Carpetbagging is strongly associated with demutualisations. The degree of awareness will help assess the extent of the demutualisation debate and the success of carpetbaggers at reaching ordinary members consciousness.

Q13. Reliability – This Likert style question allows for a range of opinions and providing the respondent knows what demutualisation is (Q11) there should be no issues of reliability.

Validity – This attitudinal question is created to use attitude as a variable against other questions. For example are those most in favour of demutualisation more likely to support branch closure or have an Internet account. As the purpose of the research is to ascertain why building societies are converting, it is vital this question is asked in some form.

Q14 and Q15. As there will be two questionnaires (one for Regional BS and the other for National BS) these questions will only be asked to the appropriate respondents, the other will be deleted.

Q14 and 15. Reliability – Once again the Likert scale has been employed and the questions commence with the refrain ‘some say.’ These are both attitudinal questions and they permit a range of options and avoid unnecessary bias.

Validity – In attempting to discover whether building societies become too big to remain mutuals (a functionalist argument) it was important to include a question on size. With the Regional BS and National BS at opposite sides of the spectrum this afforded the opportunity to pose two of key critiques of building societies. According to financial analysts (Fliegeman and Maloney 1998) the existence of the Regional BS and other small institutions is debatable in contemporary society. However, the reaction of the public may be different and it would lend support to the argument that the needs of the customer are becoming subsumed by those of the shareholder.

Q16 –18. offer a further opportunity to probe the attitudes of the respondents and are probably the most difficult section in the questionnaire.

Q16 reliability – The style of the questions is non-prescriptive and the respondents are offered sufficient answers from which to choose. All the statements are posed in affirmative language and are not ambiguous or contradictory.

Validity – These questions are designed to test respondents’ sense of priorities. For example is it more important to maintain a branch network or remain competitive, or do

the respondents have unrealisable expectations. Statement (d) is posed to uncover any latent carpetbaggers or pro-conversion respondents.

Q17 for reliability see Q16.

Validity – These statements are some of the standard criticisms posted on the carpetbaggers website. They are included to measure support for their arguments, not the outcomes. Thus, it should be possible through a cross tabulation between 16d and 17b, to find respondents who support the democracy of building societies but not demutualisation. This is an important distinction as a number of building society personal doubt the existence of these people.

Q18 Reliability – The primary difficulty surrounds the usage of wishes – what wishes is the obvious question. However, by including the word mixed in the range of answers this should ensure an even spread of responses. Again, this question may need amending following piloting.

Validity – This question should indicate levels of satisfaction with the building society as opposed to opinions on specific issues. The outcome should be a variable, which can be counter posed against the other attitudinal questions.

Q19 –22 reliability – As their structure is the same see Q11-13.

Validity – The questions on privatisation should reflect respondents' philosophical beliefs. Specifically is there a correlation between people who are opposed to both demutualisation and privatisation. These sets of questions will help frame arguments around the impact of societal changes (especially Thatcherism) on building societies.

Q23 –25 Are control questions and create independent variables

## Justification for credit union members questionnaire

To maximise the comparison between the users of building societies and credit unions the following questions have been retained from the building society member's questionnaire:

1. Are you a saver, borrower or both with x credit union?
2. How long have you been a user of x credit union?
- 2a. Which of the following words best describes your use of x credit union?
3. Can you confirm whether the following statements are true or false?
  - a) The users of a credit union are its owners.
  - b) Users of credit unions are known as members
  - c) Users of a credit union can stand for election to the board of directors
11. Some say x credit union ignores the wishes of their users – what do you think?
18. Have you heard of the phrase 'the demutualisation of building societies'?
- 18a. If YES can you name any building societies that have demutualised?
19. Have you ever received any shares or cash following the demutualisation of a building society?
20. In general what is your attitude towards demutualisation?
21. Have you heard of the process of privatisation of nationalised industries?
- 21a. If YES can you name any nationalised industries that have been privatised?
22. Did you buy any shares in privatised industries?
23. In general what is your attitude towards privatisation?
24. How do you see your political allegiance?
25. Please state your gender
26. Please state your year of birth.
27. Please confirm your current or most recent occupation

The justification for these questions was previously stated in the paper on the building society members' questionnaires.

Q4. Reliability – This lists the most often quoted reasons for people joining a credit union (drawn from previous research especially that by Berthoud and Hinton 1989). The answers also allow room for other explanations.

Validity – the purpose of the question is to explore whether people join credit unions out of collectivist and altruistic or individual and financial reasons.

Q5. Reliability – A credit union may host numerous member gatherings beyond the AGM and for the purposes of this question these have been classified as social and other meetings. Included in the other meetings are events such as training sessions, money management clinics or question and answer forums. The difficulty with the question is that respondents may not be able to separate the social from other meetings, especially where there are joint formal and social events. However, it could be argued that this will reinforce the proposition that members will show their support primarily through social not formal gatherings.

Validity – In measuring levels of commitment and support of credit union, a range of indicators should be used. Reliance on the attendance at an AGM may actually inform us of peoples' attitudes towards formal meetings and not their view of the credit union.

Q6. Validity – This is an image question, asking respondents to state their perception of the credit union. The question was drawn from Jones (1999) who asked credit union directors their views on how the members saw their institutions. Hopefully this may indicate the extent of a correlation between the perceptions of credit union leaders and ordinary members.

Reliability – A potential problem is that the answers are referring to different concepts and there is considerable opportunity for overlap. For example it is entirely possible to be both professional and friendly, hence the option for respondents to select numerous boxes. In Jones original question he included 'Very Professional' and 'Shabby' as answers, these have been deleted in the interests of brevity. However, 'Other' has been included to give the interviewee the opportunity to express their interpretation.

Q7. Validity – One of the major arguments around credit unions is that they help foster better community relations, hence it is necessary to test whether this is reflected in members attitudes.

Reliability – This question was originally used in Berthoud and Hinton (1989) when they examined community credit unions and it retains its Likert style format. However,

to make the question more appropriate for the employee based credit union questionnaire the word 'community' will be replaced by 'fellow workers'.

Q8. Reliability – The danger with this question comes through the necessity of asking people to confirm a negative proposition. The only solution is to emphasise the use of 'not' in the question.

Validity – During the semi-structured interview with Employee CU they emphasised the importance of payroll deductions to their growth. The question was created to test this argument and confirm the role of convenience in the success of employee-based credit unions. The question will be excluded from the questionnaire for the community based credit union.

Q9-10 are both included to help secure access to the members as the credit unions will only agree to co-operate if the researcher can offer them something in return. Beyond this 'political' justification the questions do have an intrinsic value to the research.

Q9 Validity – Addresses the potential demand for new services from among existing members. This question may help resolve whether credit unions are to remain simple saving and loans organisations or if they are to evolve into multi-faceted financial service providers.

Reliability – This question began with 'if offered what services would you use?' but if it had retained this format it is likely that it would have produced numerous 'it depends how much' responses, hence the alteration to a less complex question. Respondents are given the opportunity to select from the most popular services the directors of credit unions would like to offer (Jones 1998) and are also provided with an additional space to state their own preference.

Q10. Validity – While Q6 asks for respondents view on the image of the credit union, this question concentrates on the levels of satisfaction with the service it provides. The combination of these questions allows us to test whether members are happy to accept a people orientated rather than professional service. A response of this nature may suggest that increased professionalism may act as a deterrent to certain members.

Reliability – A standard Likert style question created to test the variable of satisfaction.

Q12. Validity – knowledge based question included to discover how important saving rates are to members.

Reliability – By asking for the dividend rather than the amount received it is hoped this will avoid respondents stating a cash figure. The other risk with the question is that it does not ask what year it is referring to. If a year is included this may confuse the matter as people receive the dividend in the year following its declaration. For example if a credit union issues a dividend following the 1998/9 trading year, then strictly speaking this is the dividend for 1998/9. However, the amount does not get distributed until the AGM in 2000, so many people may believe the dividend was issued in 2000. Therefore, as both credit unions in the survey paid dividends in spring 2000 it is hoped that most respondents will consider this figure when answering the question.

Q13. Reliability – This question originally asked ‘do you think you now save more or less than you would have done if you hadn’t joined the credit union?’ However, it was open to misinterpretation, as respondents may have prioritised the latter clause and thus inverted the question. In addition the question contained a negative statement that could have compounded the complexity of the question, hence its replacement by a more affirmative and simpler question.

Validity – (This also applies to Q15 and Q16). These arguments seek to address the government’s argument that credit unions can provide assistance in combating financial exclusion and help encourage money management skills. The former point is tackled directly in Q15 and to a lesser extent in Q13, which focuses on the issue of thrift (a popular mantra in both Third Way and Communitarian discourse). However, Q16 contains two objectives. The first is to examine whether credit unions do help cultivate better financial control. The second is to pose the alternative proposition, whether the promotion of credit unions merely reinforces a culture of instant gratification consumerism.

Q15 and Q16 (see above for validity). Reliability – Both are standard Likert style questions with no obvious contradictions or ambiguities.

Q14. Validity – The other aspect to the promotion of credit unions is the spectre of mass indebtedness to moneylenders. The question is designed to gauge the relevance of this scenario. It also offers the prospect of an alternative image in which previous prudent

people (those that avoid credit or borrow from kinship group) are drawn into the formalised credit sector.

Relevance – There are a range of likely options, which are majoritarian and not universal in nature. There is also a possible answer for those that have not borrowed from a credit union. However, it is possible that respondents may wish to tick more than one box or base their answer either on their last experience (it is hoped that the usage of mainly and usually should minimise this risk) or the amount borrowed. This may result in preponderance of respondents selecting formal lending based on the scale not the frequency of the loans received. The only secure way to account for this outcome would be to introduce a series of personal monetary based questions. As the key objective of the questionnaire is to maximise responses it was felt that personal financial questions should be omitted from the questionnaire. Thus it was decided to include the question, without any supplementary inquiries.

Q17. Validity – Another argument for credit unions is that they are a possible replacement for banks for those that are excluded from holding accounts. The question will examine the extent of this phenomenon.

Reliability – A straightforward dichotomous question.



## Questionnaire Coding

The following lists contain details of the coding frameworks employed in the SPSS analysis of the questionnaires. The four questionnaires used were designed to enable the same SPSS coding frame to be employed, thus ensuring data could be compared. To distinguish between them a field was created to identify which mutual the respondent was a member of.

Control (1) Employee CU; (2) Regional BS; (3) National BS; (4) Community CU

All the questions were coded as per the numbers adjacent to the tick boxes on the questionnaires; therefore the following are the list of codes not displayed on the questionnaire

### Coding of Building Society Member Questionnaire

Most questions were closed ended, requiring respondents to only tick a single box and were created giving each response a value within SPSS. With regard to closed-ended questions where multiple responses were permitted, each answer was given a separate field. For the open-ended questions the answers were first examined and a coding frame was subsequently developed.

Q2 (0) No response; (1) Under a year; (2) 1-3 years; (3) 3-5 years; (4) 5-10 years; (5) 10-20 years; (6) 20 plus years

Q3a-c (0) No response; (1) True; (2) False; (9) Don't know

Q5 (0) No response; (1) Nationwide; (2) Britannia; (3) Bradford and Bingley; (4) Other building society; (5) Halifax; (6) Abbey National; (7) Other mortgage bank; (8) Couldn't name any (10) Didn't think they were any left; (11) Abbey National & Halifax; (12) AN/Halifax plus other mortgage banks

Q6 (0) No response; (1) With another building society; (2) With two other building societies; (3) With a bank and a building society; (4) With a bank and 2 or more building societies; (5) With 2 or more banks and a building society; (10) With a bank

Q7a-b (0) No response; (1) Yes; (2) No; (9) Don't know

Q11a & 12 (Yes) As respondents could name more than one society each was given a separate field

Q15-16 (0) No response (1) Should; (2) Should Not; (3) Don't Know

- Q18a As respondents could name more than one society each was given a separate field. However, responses included water; gas; electric; British Telecommunications; British Rail; Steel/coalfields; other.
- Q21 Political allegiances stated included (5) Floating; (6) None of them; (7) Other
- Q22 (1) Woman; (2) Man
- Q23 For coding this was translated into age categories (0) No response; (1) 18-30; (2) 31-50; (3) 51-65; (4) 65 plus
- Q24 (0) No response; (1) Professional; (2) Technical; (3) Skilled non-manual; (4) Skilled manual; (5) Semi-skilled; (6) Unskilled; (7) Unemployed; (8) Pensioner; (9) Home manager

### Coding of Credit Union Member Questionnaire

- Q2, 3, As per building society questionnaire
- Q5 (0) No response (1) Yes; (2) No; (3) Don't Know
- Q6 As respondents could name more than one reason each was given a separate field
- Q8 (Employee CU questionnaire) Q9 (Community CU) As respondents could name more than one service each was given a separate field
- Q12 (0) No response; (1) up to 1%; (2) 2%; (3) 3%; (4) 4%; (5) 5%; (6) Above 5%; (6) Depends on surplus; (9) Don't know
- Q13 As respondents could provide more than one answer each was given a separate field
- Q17 As per Q6 on building society members' survey
- Q18a As per Q5 on building society members' survey
- Q21a As per Q18a on building society members' survey
- Q24 As per Q21 on building society members' survey
- Q25 As per Q22 on building society members' survey
- Q26 As per Q23 on building society members' survey
- Q27 As per Q24 on building society members' survey

**Questionnaire of building society members opinions**

As you may be aware in recent years there has been a debate concerning the future of building societies. This questionnaire is an important part of a research project at SALFORD UNIVERSITY investigating the role of these organisations in contemporary society.

All information disclosed will be treated in strict confidence. Under NO circumstances will the questionnaires be passed to any other organisation or placed on a mailing list. The anonymity of respondents will be respected and guaranteed.

We would greatly appreciate it if you could complete the questionnaire as accurately as possible and return it, using the stamp addressed envelope provided, by the .....  
Please tick one box unless other instructions are given.

**1. Are you a saver, borrower or both with National building society?**

- Saver** 1
- Borrower** 2
- Saver and Borrower** 3

**2. How long have you been a user at National building society?.....**

**2a. Which of the following words best describes your use of National building society?**

- Customer** 1
- Member** 2
- Other (please state).....** 3

**3. Can you confirm whether the following statements are true or false (Please circle one)**

- a) The users of a building society are its owners. TRUE/FALSE/DON'T KNOW
- b) Users of building societies are known as members TRUE/FALSE/DON'T KNOW
- c) Users of a building society can stand for election to the board of directors TRUE/FALSE/DON'T KNOW

**4. Every year the directors of National building society have to stand for election. Did you manage to vote in the 1999 elections?**

- Yes** 1
- No** 2
- Don't Know/Can't remember?** 3

**4a. If YES who did you vote for?.....**

**5. Apart from National building society, can you name any other building societies and any banks?**

- | Building Societies | Banks   |
|--------------------|---------|
| 1. ....            | 1. .... |
| 2. ....            | 2. .... |
| 3. ....            | 3. .... |

**6. Do you have an account with any other bank or building society?**

- YES (Please state which one(s)).....** 1

NO 2   
 Don't know 3

7. Have you ever used the internet for any of the following activities: (circle as appropriate)  
 a). On-line banking YES/NO  
 (if yes please name the organisation).....  
 b). Financial information YES/NO  
 (if yes please name the organisation) .....

8. Are the opening hours of your local branch of National convenient for you?  
 Yes 1   
 Most of the time 2   
 Mixed 3   
 Not all the time 4   
 No 5

9. Some people say there are too many building society and bank branches in [Your community] town centre - what do you think?  
 Too many 1   
 About right 2   
 Not enough 3   
 Other (please state) ..... 4

10. Would you move your savings and/or mortgage to another bank or building society if your local branch of the National building society was closed?  
 Yes 1   
 No 2   
 Don't know/Can't remember 3   
 Depends (please state ) ..... 4

11. Have you heard of the phrase 'the demutualisation of building societies'?  
 Yes 1   
 No 2   
 Don't know/Can't remember 3

11a. If YES can you name any building societies that have demutualised?  
 .....

12. Have you ever received any shares or cash following the demutualisation of a building society?  
 Yes (if YES which one(s)) ..... 1   
 No 2   
 Don't know 3

12a. Are you familiar with the term 'carpetbagging'?  
 Yes 1   
 No 2

If YES, what do you understand it to mean?

.....  
.....  
13. In general what is your attitude towards demutualisation? -

- Strongly approve 1
- Approve on the whole 2
- Mixed 3
- Disapprove 4
- Strongly disapprove 5
- Don't know 6

14. Some say the National Building Society has become too large to care about individual customers – what do you think?

- Mainly True 1
- Sometimes True 2
- Neither true or false 3
- Sometimes False 4
- Mainly False 5

15 Do you think the National building society should or should not do each of the following? (Please circle as appropriate)

- a) Close little used branches SHOULD/SHOULD NOT/DON'T KNOW
- b) Offer better savings rates SHOULD/SHOULD NOT/DON'T KNOW
- c) Offer cheaper mortgage rates SHOULD/SHOULD NOT/DON'T KNOW
- d) Become a bank SHOULD/SHOULD NOT/DON'T KNOW
- e) Give users more say in the running of the building society SHOULD/SHOULD NOT/DON'T KNOW

16. Do you think the directors of National building society should or should not:

- a) be answerable to the users? SHOULD/SHOULD NOT/DON'T KNOW
- b) allow users to vote on whether to become a bank? SHOULD/SHOULD NOT/DON'T KNOW
- c) expel users who want change the building society to a bank? SHOULD/SHOULD NOT/DON'T KNOW

17. Some say building societies ignores the wishes of their users – what do you think?

- True 1
- Mainly true 2
- Mixed 3
- Mainly false 4
- False 5

18. Have you heard of the phrase 'the privatisation of nationalised industries'?

- YES 1
- NO 2

Don't know/Can't remember

3

18a. If YES can you name any nationalised industries that have been privatised?

.....

19. Did you buy any shares in privatised industries?

Yes

No

Don't know

20. In general what is your attitude towards privatisation?

Strongly approve

Approve on the whole

Mixed

Disapprove

Strongly disapprove

Don't know

21. How do you see your political allegiance?

Conservative

Labour

Liberal Democrat

Other (please state)

22. Please state your gender (circle as appropriate).....MAN/WOMAN

23. Please state your year of birth. ....

24. Please confirm your current or most recent occupation.

Thank you for participating in this research and if you have any additional comments please state them below:.....

If would like further information or are willing to be interviewed in-depth could you please state your name and address below

THANK YOU FOR YOUR TIME IN COMPLETING THIS QUESTIONNAIRE.

Karl Dayson  
Institute of Social Research  
University of Salford  
M5 4WT  
Tel: 0161 295 4778.

**Questionnaire of building society members opinions**

As you may be aware in recent years there has been a debate concerning the future of building societies. This questionnaire is an important part of a research project at SALFORD UNIVERSITY investigating the role of these organisations in contemporary society.

All information disclosed will be treated in strict confidence. Under NO circumstances will the questionnaires be passed to any other organisation or placed on a mailing list. The anonymity of respondents will be respected and guaranteed.

We would greatly appreciate it if you could complete the questionnaire as accurately as possible and return it, using the stamp addressed envelope provided, by the .....

Please tick one box unless other instructions are given.

- 1. Are you a saver, borrower or both with Regional building society?**
- Saver 1   
 Borrower 2   
 Saver and Borrower 3
- 2. How long have you been a user at Regional building society?.....**
- 2a. Which of the following words best describes your use of Regional building society?**
- Customer 1   
 Member 2   
 Other (please state)..... 3
- 3. Can you confirm whether the following statements are true or false (Please circle one)**
- a) The users of a building society are its owners. TRUE/FALSE/DON'T KNOW  
 b) Users of building societies are known as members TRUE/FALSE/DON'T KNOW  
 c) Users of a building society can stand for election to the board of directors TRUE/FALSE/DON'T KNOW
- 4. Every year the directors of Regional building society have to stand for election. Did you manage to vote in the 1999 elections?**
- Yes 1   
 No 2   
 Don't Know/Can't remember? 3
- 4a. If YES who did you vote for?.....**
- 5. Apart from Regional building society, can you name any other building societies and any banks?**
- | Building Societies | Banks   |
|--------------------|---------|
| 1. ....            | 1. .... |
| 2. ....            | 2. .... |
| 3. ....            | 3. .... |
- 6. Do you have an account with any other bank or building society?**  
 YES (Please state which one(s))..... 1

NO 2   
Don't know 3

7. Have you ever used the internet for any of the following activities: (circle as appropriate)

- a). On-line banking YES/NO  
(if yes please name the organisation).....
- b). Financial information YES/NO  
(if yes please name the organisation) .....

8. Are the opening hours of your local branch of Regional convenient for you?

- Yes 1   
Most of the time 2   
Mixed 3   
Not all the time 4   
No 5

9. Some people say there are too many building society and bank branches in [Your community] town centre – what do you think?

- Too many 1   
About right 2   
Not enough 3   
Other (please state) ..... 4

10. Would you move your savings and/or mortgage to another bank or building society if your local branch of the Regional building society was closed?

- Yes 1   
No 2   
Don't know/Can't remember 3   
Depends (please state ) ..... 4

11. Have you heard of the phrase 'the demutualisation of building societies'?

- Yes 1   
No 2   
Don't know/Can't remember 3

11a. If YES can you name any building societies that have demutualised?  
.....

12. Have you ever received any shares or cash following the demutualisation of a building society?

- Yes (if YES which one(s)) ..... 1   
No 2   
Don't know 3

12a. Are you familiar with the term 'carpetbagging'?

- Yes 1   
No 2



If YES, what do you understand it to mean?

.....  
.....

13. In general what is your attitude towards demutualisation? :

- |                      |                            |
|----------------------|----------------------------|
| Strongly approve     | 1 <input type="checkbox"/> |
| Approve on the whole | 2 <input type="checkbox"/> |
| Mixed                | 3 <input type="checkbox"/> |
| Disapprove           | 4 <input type="checkbox"/> |
| Strongly disapprove  | 5 <input type="checkbox"/> |
| Don't know           | 6 <input type="checkbox"/> |

14. Some say the Regional Building Society is too small to survive in today's economy – what do you think?

- |                            |                            |
|----------------------------|----------------------------|
| Strongly agree             | 1 <input type="checkbox"/> |
| Agree                      | 2 <input type="checkbox"/> |
| Neither agree nor disagree | 3 <input type="checkbox"/> |
| Disagree                   | 4 <input type="checkbox"/> |
| Strongly disagree          | 5 <input type="checkbox"/> |

15 Do you think the Regional building society should or should not do each of the following? (Please circle as appropriate)

- |   |                              |
|---|------------------------------|
| a) Close little used branches                                 | SHOULD/SHOULD NOT/DON'T KNOW |
| b) Offer better savings rates                                 | SHOULD/SHOULD NOT/DON'T KNOW |
| c) Offer cheaper mortgage rates                               | SHOULD/SHOULD NOT/DON'T KNOW |
| d) Become a bank  | SHOULD/SHOULD NOT/DON'T KNOW |
| e) Give users more say in the running of the building society | SHOULD/SHOULD NOT/DON'T KNOW |

16. Do you think the directors of Regional building society should or should not:

- |  |                              |
|--|------------------------------|
| a) be answerable to the users?                                 | SHOULD/SHOULD NOT/DON'T KNOW |
| b) allow users to vote on whether to become a bank?            | SHOULD/SHOULD NOT/DON'T KNOW |
| c) expel users who want change the building society to a bank? | SHOULD/SHOULD NOT/DON'T KNOW |

17. Some say building societies ignores the wishes of their users – what do you think?

- |              |                            |
|--------------|----------------------------|
| True         | 1 <input type="checkbox"/> |
| Mainly true  | 2 <input type="checkbox"/> |
| Mixed        | 3 <input type="checkbox"/> |
| Mainly false | 4 <input type="checkbox"/> |
| False        | 5 <input type="checkbox"/> |

18. Have you heard of the phrase 'the privatisation of nationalised industries'?

- |     |                            |
|-----|----------------------------|
| YES | 1 <input type="checkbox"/> |
| NO  | 2 <input type="checkbox"/> |

Don't know/Can't remember 3

18a. If YES can you name any nationalised industries that have been privatised?  
.....

19. Did you buy any shares in privatised industries?

- Yes 1
- No 2
- Don't know 3

20. In general what is your attitude towards privatisation?

- Strongly approve 1
- Approve on the whole 2
- Mixed 3
- Disapprove 4
- Strongly disapprove 5
- Don't know 6

21. How do you see your political allegiance?

- Conservative 1
- Labour 2
- Liberal Democrat 3
- Other (please state) 4

22. Please state your gender (circle as appropriate).....**MAN/WOMAN**

23. Please state your year of birth. ....

24. Please confirm your current or most recent occupation.

Thank you for participating in this research and if you have any additional comments please state them below:.....  
.....  
.....

If would like further information or are willing to be interviewed in-depth could you please state your name and address below  
.....  
.....  
.....

**THANK YOU FOR YOUR TIME IN COMPLETING THIS QUESTIONNAIRE.**

Karl Dayson  
Institute of Social Research  
University of Salford  
M5 4WT  
Tel: 0161 295 4778.

**Questionnaire of credit union users opinions -**

As you may be aware in recent years there has been a debate concerning the future of credit unions. This questionnaire is an important part of a research project at SALFORD UNIVERSITY investigating the role of these organisations in contemporary society. -

All information disclosed will be treated in strict confidence. Under NO circumstances will the questionnaires be passed to any other organisation or placed on a mailing list. The anonymity of respondents will be respected and guaranteed.

We would greatly appreciate it if you could complete the questionnaire as accurately as possible and return it, using the stamp addressed envelope provided, by the .....

Please tick one box unless other instructions are given.

**1. Are you a saver, borrower or both with x credit union?**

- Saver** 1
- Borrower** 2
- Saver and Borrower** 3

**2. How long have you been a user of x credit union?.....**

**2a. Which of the following words best describes your use of x credit union?**

- Customer** 1
- Member** 2
- Other (please state)** 3

**3. Can you confirm whether the following statements are true or false (Please circle one)**

- a) The users of a credit union are its owners. TRUE/FALSE/DON'T KNOW**
- b) Users of credit unions are known as members TRUE/FALSE/DON'T KNOW**
- c) Users of a credit union can stand for election to the board of directors  
TRUE/FALSE/DON'T KNOW**

**4. Which of these reasons comes closest to explaining why you joined?**

- Because you thought it would be helpful to you personally** 1
- Because you thought it would be helpful to other people** 2
- Because you thought having a credit union would bring people together** 3
- Because somebody asked you to do so** 4
- Other (please state).....** 5

**5. Have you ever attended the following events organised by x credit union? (please circle as appropriate)**

- a). Annual general Meeting YES NO Don't Know/Can't Remember**
- b). Social events YES NO Don't Know/Can't Remember**
- c). Other meetings YES NO Don't Know/Can't Remember**

**6. Which of the following best represents your view of x credit union? (tick one or more boxes)**

- Professional** 1
- Friendly** 2
- Community/people orientated** 3
- Poor** 4
- Amateurish** 5
- Other (please state).....** 6

7. Does being in the credit union give you a greater sense of belonging to your community / fellow workers?
- Yes, definitely  1
- Yes, maybe  2
- Don't Know/ Not Sure  3
- No, not really  4
- No, definitely not  5
8. Would you remain in the credit union if your contributions were NOT deducted from your paycheck?[Question omitted from Community CU questionnaire]
- Yes, definitely  1
- Yes, Maybe  2
- Don't know / Not sure  3
- No, not really  4
- No, definitely not  5
9. What additional services would you like to see x credit union offer? (tick one or more boxes)
- Different opening hours (state which times).....  1
- More collection points  2
- Internet banking  3
- Cash point machines  4
- Credit Cards  5
- Cheque books  6
- Money management advice  7
- Other services (please state).....
10. How satisfied are you with the service you receive from x credit union?
- Very satisfied  1
- Fairly satisfied  2
- Neither satisfied or dissatisfied  3
- Rather dissatisfied  4
- Very dissatisfied  5
11. Some say x credit union ignores the wishes of their users – what do you think?
- True  1
- Mainly true  2
- Mixed  3
- Mainly false  4
- False  5
12. What dividend do people earn on their savings with the x credit union?.....

- 13. Has being in the credit union easier or more difficult to save money?**
- Much easier 1
- A little easier 2
- Neither easier or harder 3
- More difficult 4
- 14. Before joining the credit union where did you get credit from?**
- Mainly borrowed the money from a friend or relative 1
- Mainly borrowed the money from a bank or building society 2
- Mainly borrowed from a moneylender or pawnbroker 3
- Usually brought goods on credit from a shop 4
- Mainly saved up before buying things or gone without 5
- Other (please state) ..... 6
- Never borrowed from the credit union 7
- 15. Would you use credit more or less if you were NOT a member of x credit union?**
- Much more 1
- A bit more 2
- About the same 3
- Less 4
- A lot less 5
- 16. Has being in the credit union made it easier or more difficult for you to manage your money?**
- Much easier 1
- A little easier 2
- Neither easier or harder 3
- More difficult 4
- A lot harder 5
- 17. Do you have an account with any banks or building societies?**
- YES (Please state which one(s))..... 1
- NO 2
- 18. Have you heard of the phrase 'the demutualisation of building societies'?**
- Yes 1
- No 2
- Don't know/Can't remember 3
- 18a. If YES can you name any building societies that have demutualised?**
- .....
- 19. Have you ever received any shares or cash following the demutualisation of a building society?**
- Yes (If YES which one(s)) ..... 1
- No 2
- Don't know 3

20. In general what is your attitude towards demutualisation?
- Strongly approve 1
  - Approve on the whole 2
  - Mixed 3
  - Disapprove 4
  - Strongly disapprove 5
  - Don't know 6

21. Have you heard of the process of privatisation of nationalised industries?
- YES 1
  - NO 2
  - Don't know/Can't remember 3

21a. If YES can you name any nationalised industries that have been privatised?  
 .....

22. Did you buy any shares in privatised industries?
- Yes 1
  - No 2
  - Don't know 3

23. In general what is your attitude towards privatisation?
- Strongly approve 1
  - Approve on the whole 2
  - Mixed 3
  - Disapprove 4
  - Strongly disapprove 5
  - Don't know 6

24. How do you see your political allegiance?
- Conservative 1
  - Labour 2
  - Liberal Democrat 3
  - Other (please state)..... 4

25. Please state your gender (circle as appropriate).....MAN/WOMAN

26. Please state your year of birth. ....

27. Please confirm your current or most recent occupation.....

Thank you for participating in this research and if you have any additional comments please state them below:.....

.....  
 .....  
 .....  
 THANK YOU FOR YOUR TIME IN COMPLETING THIS QUESTIONNAIRE.  
 Karl Dayson, Institute of Social Research, University of Salford, M5 4WT. Tel: 0161 295 4778.

## Appendix E: Cyber-ethnography

The following nine pages contain examples of the websites and bulletin board information used during the research:

1. In its original format the Carpetbagger.com bulletin boards were purely lists of messages. Surfers searched through the titles and clicked on a topic of interest.
2. Once clicked on the message appeared in a memo form. From here the surfer has the opportunity to respond and thus continue the 'thread'.
3. Following the arrival of themoneybag.com, the carpetbagger.com website was upgraded, making it possible to read all correspondence on a thread.
4. The bulletin board forum lists on themoneybag.com shows increasing interest general financial information. Note the activity on the 'UK Internet Shares and IPO topics' forum was only a third below interest in 'Building Society topical issues'. Also the 'Portman Members – Action Group' is the first example of restricted access bulletin boards, which I was unable to access.
5. From its inception themoneybag.net bulletin board used software that was later adopted by Carpetbagger.com. Apart from the ability to read all relevant messages on one sheet, contributors could also use emoticons and send emails directly to other participants. Additionally the contributors date of registration and the number of posts made, updated once a day, were listed. Through this a meritocratic hierarchy could emerge based on the length of participation and the number of posts.
6. Carpetbaggers demonstrated the computer literacy by engaging in spoof websites, such as this 'Porkman' home page.
7. These sites were an effective and humorous way to communicate with the public. Note that the site is registered in the USA and therefore beyond UK libel jurisprudence.
8. In comparison with capertbagger.com SOBS used their website to project their message to the media and the bulletin board was only of marginal utility.
9. SOBS bulletin board clearly showed the technology divide between themselves and the carpetbaggers.

With-profits - more like with ripoffs Dilbert 14 Aug 1999 171.215.57.96  
Re: With-profits - more like with ripoffs Carpet Realist 14 Aug 1999 195.92.197.38  
Re: With-profits - more like with ripoffs Ozzie 15 Aug 1999 203.56.239.111  
Re: With-profits - more like with ripoffs Ord 14 Aug 1999 195.99.56.187  
Re: With-profits - more like with ripoffs The Ferryman 14 Aug 1999  
195.99.53.99  
Re: With-profits - more like with ripoffs Hawkeye 14 Aug 1999  
194.168.238.194  
Re: With-profits - more like with ripoffs The Ferryman 15 Aug 1999  
195.99.49.32  
Re: With-profits - more like with ripoffs Hay Week 15 Aug  
1999 194.168.69.234

Scottish Widows Regular Savings Plan MM 14 Aug 1999 194.168.252.150  
Article 295 14 Aug 1999 194.168.252.150  
RE: Scottish Widdows Regular Savings Plan Realistic 14 Aug 1999 195.44.7.28  
Wonderful news Ord 14 Aug 1999 195.171.251.111  
Scottish Widows Regular Savings Plan MM 13 Aug 1999 212.250.37.46  
Re: Scottish Widows Regular Savings Plan Wobbegong 13 Aug 1999  
195.166.139.132

scottish widows---regular savings plan Doctorbagger 12 Aug 1999 212.1.136.135  
Re: scottish widows---regular savings plan Ord 13 Aug 1999 195.171.249.48  
Re: Ord What do you mean not full wp as this was the recommended product  
from Chartwell ? Mr C 13 Aug 1999 195.44.201.129  
Re: Ord - should one therefore go for full wp all the time and not  
unitised ? Mr C 13 Aug 1999 195.44.18.91  
Full with profits where possible & affordable Ord 13 Aug 1999  
62.172.58.141  
Re: Ord What do you mean not full wp as this was the recommen... Ord  
13 Aug 1999 212.140.97.35  
Re: Ord What do you mean not full wp as this was the recommen...  
The Phantom Bag 13 Aug 1999 130.238.33.100  
Re: Ord What do you mean not full wp as this was the recommen...  
Norfolk'nChance 13 Aug 1999 195.44.200.52  
Get a good Financial Adviser if you are buy WP policies GeorgeS  
19 Aug 1999 198.240.212.30

Scottish W - Date release? Moose 12 Aug 1999 194.168.18.89  
Chartwell carpet carole 11 Aug 1999 195.92.194.76  
Re: Chartwell Dilbert 12 Aug 1999 193.133.190.50  
B&B CENSURED FOR 'MISLEADING' ADS Peter 11 Aug 1999 212.140.84.120  
Scottish Widows "Shareholders" The Maximiser 10 Aug 1999 194.83.240.32  
Re: Scottish Widows "Shareholders" Perplex 10 Aug 1999 193.122.240.33  
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# Mutuality vs Conversion

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## Re: To Danbert Nobacon

**From:** Harry Hall  
**Date:** 17 Apr 2000  
**Time:** 18:58:18  
**Remote Name:** 193.113.185.164

### Comments

We are trying to maintain the moral high ground with regard to to the porkmen and fellow fat cats who don't believe in dissenting views being heard. Therefore the banning/censorship of an individual who views were slightly at variance with those of Pilot / Dilbert was therefore most hypocritical and damaging (rudely's posts were mild and totally inoffensive) An important principle was at stake and thankfully this right to free expression of inoffensive views prevailed.

I didn't try to pull rank with you. You questioned my contribution to this site so I had to mention this in response. But this is an understandable mistake given that I have changed my handle. I wouldn't use the term "half-wit" to describe my actions against dilbert. I was rightly offended by his actions/posts. This post by a dyslexic says it all:

[http://www.carpetbagger.com/cbtales8/\\_disc98/00000130.htm](http://www.carpetbagger.com/cbtales8/_disc98/00000130.htm)

But I am willing to move on, be lucky

Harry

Good luck,

Harry



**Last changed: April 17, 2000**



**Author**

**Topic: One thing's clear to me**

**Carpetbagger**  
Member

posted 03-06-2000 21:34 [\[U\]](#) [\[P\]](#) [\[E\]](#)

Posts: 28  
Registered: Apr 2000

Is that some of the members here are unpleasant, vindictive, ungrateful, lazy, paranoid, greedy and offensive.

Are these typical of baggers in general?

As a newcomer to bagging I am not sure I want to stay around with this sort of person.

Probably the same sort of scum that made threatening calls to Bob Goodall.

**DiD**  
Member

posted 03-06-2000 21:51 [\[U\]](#) [\[P\]](#) [\[E\]](#)

Posts: 7  
Registered: Apr 2000

Cheerio.

Sorry, but you really asked for that.

**Mel**  
Member

posted 03-06-2000 21:52 [\[U\]](#) [\[P\]](#) [\[E\]](#)

Posts: 150  
Registered: May 2000

Dead right - and ten times that number are charitable, intelligent, altruistic, witty, helpful and talented.

If you do decide to leave us after such a short evaluation period - don't send a card.

Mel - probably the same sort of scum that was repeatedly threatened by Bob Goodall's partner.

[This message has been edited by Mel (edited 03-06-2000).]

**Mr Mango**  
Member

posted 03-06-2000 23:00 [\[U\]](#) [\[P\]](#) [\[E\]](#)

Posts: 7  
Registered: Apr 2000

Mel - Spot on with the comment in your first sentence.

Carpetbagger - Please correct me if I am mistaken, but are you referring to some of the posts that were made late last night/early this morning concerning Pilot from The MoneyBag? If you are then I agree with you entirely. They were some of the most unpleasant attacks on a fellow bagger that I have seen in the last 18 months. Comparing someone you barely know with Hitler is not funny even when accompanied with a smile face. I'm not surprised that the comments in question seem to have been removed pretty quickly. In addition, some of the comments elsewhere about downloading music do not make for edifying reading.

Regards

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<b>Mutual Building Societies (carpetbagging)</b>				
<a href="#">Building Society topical issues</a>	50	353	03-04-2000 16:17	Smiler, Pilot
<a href="#">Building Society futures / tips</a>	86	446	03-04-2000 16:34	Smiler, Pilot
<a href="#">Portman (&amp; Skipton/Chelsea) Issues</a>	45	193	03-04-2000 15:04	Ord, Pilot
<b>Stockmarket based investments</b>				
<a href="#">UK Internet Shares &amp; IPO topics</a>	44	264	02-04-2000 20:46	Smiler, Sykes
<a href="#">UK Unit Trusts / other fund topics</a>	8	42	25-03-2000 20:20	The Ferryman
<a href="#">All Other Shares (UK &amp; Foreign)</a>	17	59	29-03-2000 23:41	Sykes
<b>Mutual Insurers and other mutuals</b>				
<a href="#">Life Co. (&amp; Others) topical issues</a>	30	131	02-04-2000 23:08	Pilot
<a href="#">Life Co. (&amp; Others) futures / tips</a>	25	148	02-04-2000 22:27	Pilot
<b>General money/financial info/IFA</b>				
<a href="#">Independent Financial Advisor Q&amp;As</a>	48	196	02-04-2000 23:59	The Ferryman
<a href="#">Web Site feedback, ideas &amp; news</a>	57	255	03-04-2000 10:08	Webmaster, Smiler
<b>Private Forums (invitation only)</b>				
<a href="#">Portman Members - Action Group</a>	60	268	03-04-2000 14:39	Ord

All times are BST

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- [Totalise bids for Chelsea Building Soc \(Page 2\)](#)

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Author	Topic: Totalise bids for Chelsea Building Soc
<b>Dirty Bagger</b> Member Posts: 10 Registered: Mar 2000	posted 15-04-2000 00:20 I've just come in from the pub. I only had 3.5pts, already I seem to be hallucinating. I'm sure I'll wake up tomorrow and it won't have happened. Must buy this beer again! Dirty Bagger, hic! The original and best! (Not the "new member" posting under the "D.B." handle. I thought impersonation only happened on carpetbagger.com!) [This message has been edited by Dirty Bagger (edited 15-04-2000).] IP: Logged
<b>Happy Bagger</b> Member Posts: 76 Registered: Feb 2000	posted 15-04-2000 00:28 Re: carpetbagger.com I usually accessed using ../new/tales.htm route, but now all the links from that to the discussion groups have gone to. Regards h-b@mail.ru IP: Logged
<b>Dirty Bagger</b> Member Posts: 10 Registered: Mar 2000	posted 15-04-2000 00:30 On a more serious note, if Totalise have bought carpetbagger.com, presumably for its 'profile', why have they shut it down? IP: Logged
<b>Dirty Bagger</b> Member Posts: 10 Registered: Mar 2000	posted 15-04-2000 00:34 BTW, Richard, I hope you took the proceeds in cash! Dot.com shares not doing too well at the moment! Dirty Bagger

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Welcome to the Portman Building Society website

Porkman Building Society regrestfully announces that in view of an increase in speculative account opening we have been forced to take the following action:

Porkman Building Society regrettably announces that in view of an increase in speculative account opening we have been forced to take the following action:

No savings accounts will be opened for new customers

We apologise for any inconvenience this may cause.

Mutuality doesnt matter

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We are committed to continue as a traditional building society so that we can offer our directors very high remuneration packages without any pressures.

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SAVE OUR BUILDING SOCIETIES  
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This campaign has been established to help champion the case for a mutual sector of financial institutions offering mortgage lending and investment saving options within the UK financial marketplace. Building societies date back to 1775. Small groups of people joined together to provide mutual financial support allowing members to become housed. That tradition is now in jeopardy.

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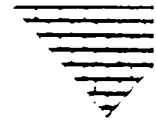
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## The Save Our Building Societies Campaign (UK)

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post reply

**Dick Head's Logic** **Logic** **Grey** **5:57pm Friday October 29, 1999**

Dick, my lad, your effusions make my points for me, but here are some responses anyway. (1) It was 'stupid socialist' Conservatives who introduced the 40% tax. (2) If you're not rich, why do you keep on bragging that you are (private school, private medicine, etc. etc.)? (3) You know nothing about me or my income or the taxes I pay, so don't embarrass yourself by saying such sad things as 'I pay into the system while you take out'. Oh dear, it really is sad to think that building societies are at the mercy of people like you, Ordure, and Hong Kong P

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re: [Dick Head's Logic](#) [Dilbert](#) 8:50 am Saturday October 30, 1999

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