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Reframing Building Societies and Mutual Insurers: Collaboration as a source of competitive advantage

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[1] https://assets.digital.cabinet-office.gov.uk/media/565334fb40f0b674d3000054/University_of_Manchester_response_to_PFs.pdf

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INTRODUCTION

The economic and social importance of (mutual) financial services

Financial services are vital to economic health and well-being, and we are hard pressed as individuals, families and communities if we are forced to do without them. As such, financial services contribute to the common good. Our need for financial inclusion means that the provision of affordable and accessible financial services is a matter of public concern, not simply of private profit.

UK financial mutuals (building societies and mutual insurers and friendly societies) play a key role in ensuring that the broader financial services industry provides social, as well as financial, contributions to a healthy economy, to stronger communities and to individual lives. They contribute to the diversity of the financial services market as a whole, adding valuable competition which serves the consumer, and through their different, customer-owned form adds to the financial stability of the market as a whole as demonstrated in previous research by the Centre for Mutual and Employee-owned Business (Davies & Yeoman 2013; Michie & Davies 2012; Michie and Oughton 2013).

The Centre for Mutual and Employee-owned Business, University of Oxford with funding from The Building Societies Association and the Association of Financial Mutuals, undertook to examine independently how the sector might create new strategic possibilities grounded in the values and principles of mutuality. One of the key objectives is for this academic research to generate fresh thinking by describing new concepts and producing novel analysis.

As such, our report aims to be distinctly forward-looking. Now that financial mutuals have weathered the challenges of increased competition and demutualisation, they can strategically plan their future.

Previous developments in the mutual sector can be understood as actions responding to market (and regulatory) pressures in which the scale and health of the sector is ultimately measured through the competitiveness of a few larger institutions. This has created conditions for a sector in which member firms act in the interest of their members and their own as independent firms. However, this may be problematic for the financial mutual sector as a whole as members who seek an alternative future are forced to the periphery because they do not meet the demands for success set by market regulators.

This report argues that collaboration, clearly that which does not infringe competition law, presents a meaningful, long-term oriented scenario with outcomes beneficial to the whole range of stakeholders.

Collaboration is increasingly seen as a valuable approach in the face of complex systems, such as the provision of retail financial services. For building societies and mutual insurers in particular, collaboration offers distinctive strategic opportunities as the mutual principles on which they are founded provide an excellent basis for co-operation. International examples of financial mutuals' collaboration demonstrate the advantages the sector can achieve for the customer-owners, but these existing deep collaborative structures and governance arrangements often originated gradually from specific historical and local contexts.

An insightful example from Finland in the report demonstrates that a state of crisis can provide the impetus for collaborative structures to emerge more rapidly, but this is clearly not the preferred way to develop such arrangements. Our research therefore explores how the financial mutual sector in the UK could start towards greater collaboration in a gradual and constructive way. This includes lifting strategic thinking from the firm- to the sector-level, stimulating sector-wide conversations, potentially co-ordinated by a third party. This could help to establish trusted collaborative communities from which much can be learned and the extent of collaboration then increased in scale.

The collaborative logic

The UK financial mutual sector would not be alone in considering the strategic potential of collaboration. Public and private challenges in the twenty first century are exceeding the capacities of single organisations and governments. Increasingly, we are living in a 'shared-power, no-one-wholly-in-charge world' (Crosby & Bryson 2010: 211) where multiple actors share responsibility for producing outcomes of benefit to each. For example, public value creation is now dependent upon networked or collaborative governance of multiple agencies including government, public sector organisations, private enterprises, civil society groups and communities. Furthermore, private value creation is inextricably linked to corporate involvement in public value creation, particularly where private corporations are implicated in the management of scarce natural resources, but also in arenas which are considered to be of public interest, such as the provision of inclusive financial services, i.e. services provided directly target customer members' needs over the pursuit of profit often witnessed in mainstream financial institutions. This would mean that competition and profit-motivation are not the only impulses driving economic and social relations.

In many sectors, inter-organisational collaboration is on the increase. From global supply chains to the management of natural resources and integrated public service delivery, organisations are confronted with challenges which none can effectively address alone. In response, we are observing the rise of complex adaptive systems: a density of partnerships, unavoidable interconnections and interdependencies which demand that organisations develop capabilities for coordination, cooperation and collaboration. Indeed, corporations with complex supply chains must grapple with matters of governance and eco-system management, blurring the practical distinction between public and private goods. Given this, it is timely for the UK financial mutuals sector to reflect upon the different ways in which individual organisations may work together for mutual strategic advantage.

We proceed by:

- Examining the formation of today's UK financial mutuals sector;
- Describing international examples;
- Laying out three strategic scenarios;
- Describing the Mutuality Principle;
- Introducing the features of inter-firm collaboration, including a model of Mutual Leadership;
- Specifying the elements of a sector-wide strategic conversation.

How to use this research and possible options for action

Our research report and the accompanying executive summary should not just be considered as another consultancy output. Instead, the aim of this academic report is to inform future debate and educate its audience by outlining the resources, frameworks and processes for a sector-wide strategic conversation which draws upon a re-imagined mutual philosophy, and aims to generate distinctly mutual business practices.

In order to identify potential and future developments in the UK financial mutuals sector (building societies and mutual insurers, including friendly societies) we combine a theoretical and conceptual discussion with a description of three scenarios, highlighting the impact that action and non-action may have on the sector in the long-term (5 to 10 years +). We have identified these three scenarios as: independence, where individual mutuals continue to pursue organisation-based strategies for the benefit of their own members; partnership, where mutuals combine resources and capabilities in temporary or issue-focussed strategic partnerships; and collaboration, where a subset of the mutual sector, or even the entire mutual sector, co-creates a new business model.

Whilst this report will propose a vision for building societies and mutual insurers based upon the values and principles of mutuality and collaboration, we do not prescribe a fixed set of recommendations. Still, the report itself singles out a number of options that could be read as potential starting points towards a conversation of strategic change on sector level with respect to cultural, institutional and market barriers to collaboration. These include in particular:

1. Cross-selling opportunities between mutual firms – this is currently underdeveloped and offers opportunities to strengthen the mutual sector, in particular with respect to financial products.
2. Centralisation of (IT) services – some building societies and credit unions have already started this process, but most mutuals have resisted this development under the pretence of the 'loss of independence'; however, with competitive forces increasing and technological change continuing at a fast rate, organisations should be increasingly willing to cooperate.

3. Leadership challenges – for mutuality to succeed on a sector level, mutual leadership must reflect the mutual sector. This means making a shift from being focused solely on one organization to accepting that the health of the sector as a whole can influence the standing of a single organisation.

However, these steps should be seen as part of a more wide-ranging debate about the sector and the actions undertaken by its member financial mutuals. Whilst the implementation of any of the above may have some benefits in the medium term, any meaningful development of collaborative practices in the UK's financial mutual sector would require a long-term horizon and an orchestrator leading systemic change.

Engaging sector participants in the conversation to generate a process that is supported by the mutuals concerned is needed. Trade associations or an independent third party (for example academics or trade unions) could take on a central role in bringing together those mutuals that are interested in identifying and producing more wide-ranging change which commits mutuals to whole sector development, as well as providing benefits to their particular members.

The report covers many of the issues that may become relevant once a conversational process has begun and should be consulted by interested parties as a source of information and debate[2].

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

1 The formation of today's financial mutual sector

1.1 Demutualisation, competition and the Big Bang

While what follows is well known, it is worth rehearsing how the financial mutual sector came to be of the shape and size that it is today. This has an important bearing on the strategic debate that this research advocates.

Since the late 1980s, the UK mutual sector has faced increased competition, demutualisation and consolidation. Although this process has now slowed, mergers inevitably create fewer, larger mutual, particularly as the formation of new financial mutual is very challenging. The past three decades have been turbulent for financial mutuals in the UK. Government policies introduced during the 1980s culminated in the Big Bang of 1986 which saw the widespread deregulation of the financial markets with the key objective of introducing more competition into markets. For financial mutuals, the impact was profound, ameliorated by the Building Society's Act of 1986 which gave them the legislative ability to access new markets.

The ambition of successive governments to expand mainstream banks' activities in the mortgage market was accelerated by removing 'credit controls'. Here, the goal of instilling competition has been partially successful – the share of mortgage lending by mainstream banks and other institutions increased from 3% in 1977 to 36% in 1987. However, building societies managed to reverse some of these trends by 1990 and issued 75% of all new mortgages (ISR 2013). In a similar vein, relaxed regulations enabled banks to expand their activities in the insurance markets. Whilst some banks, such as Barclays, have historically been involved in these markets, restrictions meant that those activities were performed under separate subsidiary companies (Westall et al. 1990). Following the Big Bang, other UK banks, including Midland Bank and RBS entered the insurance market.

> *"In my view, and others might dispute this, there was a building society movement up to around 1950, very much aligned to the creation of housing for people, good living conditions, etc. After that, gradually – if you look at the old year books, gradually, what you see is the emergence of kind of an aping of banks, really, and that culminated in 1995 with the mass demutualisation. So the language became more bank-like. There was less attention to … the members were just customers, really."*
>
> Financial Mutual Leader

The impact of deregulation was more marked by allowing, and to some extent encouraging, UK financial mutuals to demutualise. Members could directly benefit financially through windfall payments by voting for their mutual to convert. Executives of financial mutuals also had a personal financial interest in demutualisation, benefitting from both initial windfall payments and a rise in executive remuneration once listed on the market (APG 2006), which substantially outperformed the financial rewards realised by members. Still, the promise of one-off cash payments did prompt the members of some large building societies to accept demutualisation proposals. These were successful in all but two cases – Nationwide (The Guardian 2001), where members voted twice against demutualisation between 1989 and 2000 and Leek United in 1999. Similar reasons led to the demutualisation of mutual insurers, beginning in 1996, with the latest demutualisation of MGM Advantage taking place in 2013. Yet again, demutualisation was contested fiercely, in particular in the case of Standard Life where the battle over demutualisation took over six years until it eventually floated in May 2006 (APG 2006: 11).

Relaxed regulation and demutualisation has had a series of additional implications for financial mutual:

1) In terms of their products and services, building societies and banks began to look more alike. This process began when the building societies' official cartel, which effectively set mortgage rates until the early 1980's, was disbanded and mortgage rates were set with reference to clearing market levels (Taylor 2003). On the one hand, this enabled building societies to compete more effectively with mainstream banks and the demutualised companies, but on the other, it also encouraged more competition between new building society business models and those which had decided to retain their more traditional saving and mortgage model (ISR 2013).

2) The process of demutualisation shrank the financial mutual sector: both, building societies and mutual insurers saw their share of the market fall substantially since demutualisation began (Figure 1). In neither market has, market share risen back to pre-demutualisation levels, although more recently, there are signs of improvement. For example, building societies collectively outstrip net mortgage lending by mainstream banks comfortably[3], and mutual insurers recovered from their market share low at 5% in 2007 to now 7.5%[4]. Thus, it would be false to suggest that the mutual model is the problem; rather, it was the calamity of many of the large, well-known actors exiting the sector that has had significant repercussions for how the remaining mutuals re-organised their affairs.

[3] For more details, see: https://www.bsa.org.uk/statistics/bsa-statistics

[4] Further information at: http://www.financialmutuals.org/resources/mutually-yours-newsletter/mutuality-and-insurance

Figure 1: UK financial mutual market share

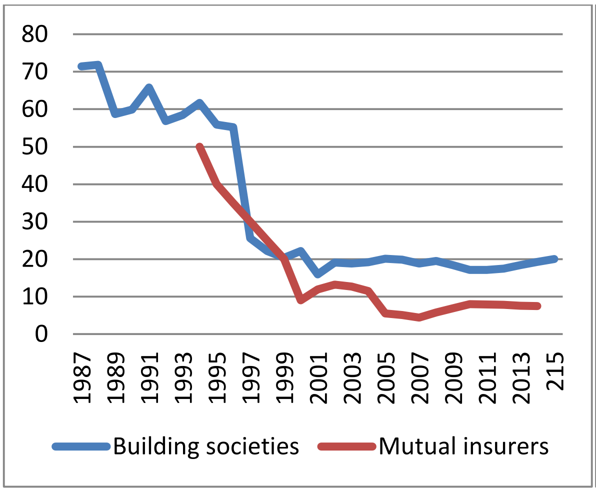
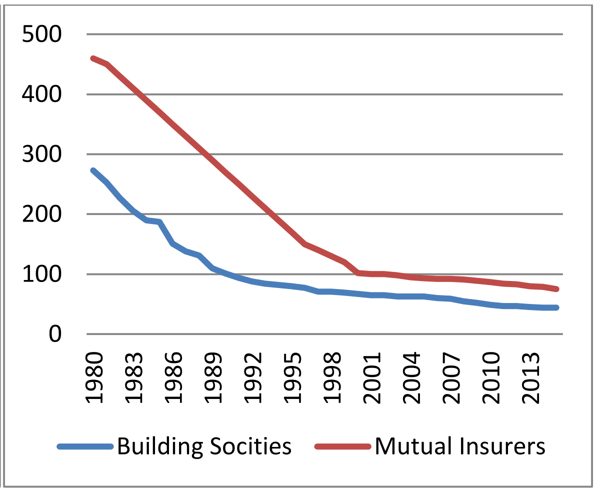


Figure 2: Number of financial mutuals in UK



Before the financial crisis, strategic merger was a key mechanism by which mutuals in the UK tried to re-establish the market. Arguably, there are at least two main reasons for this:

- The loss of key brands required replacements – Nationwide and Royal London are examples of these. Partly produced by M&A activity, these organisations are suited to be considered to represent the current government's idea of a mutual challenger;
- Consolidation as a continuing trend – examining historic data (Figure 2), it is clear that consolidation has been a historic trend in a number of markets. Reasons for this development differ, but much of it is driven by the scale efficiencies needed to compete in more open markets. This is not to say that small-scale mutuals cannot be effective lenders/insurers; indeed, Ecology Building Society succeeds in lending to niche markets, whilst Cornish Mutual has developed an effective general insurance business within the south-west.

The most clearly observable impact of consolidation has been upon the increase in concentration of assets in the five biggest building societies. Whereas twenty years ago the five largest held 67% of the total assets in sector, this figure is 90% today. What is more, Nationwide has established itself as the dominant player, in size terms, controlling more than 60% of assets held by all building societies. The mutual insurance sector is similarly characterised by a small number of substantial mutuals; the remainder of the market being made up of many smaller institutions. Specifically, the five largest account for close to 80% of the total assets in this sector; Royal London dominates the sector controlling over 50% of assets.

Overall, the post crisis period has been mixed for financial mutuals. Despite an increase in market share for mortgage lending rise since 2012, the building societies' sector has been unable to reverse its fortunes, despite the public's mistrust and dissatisfaction with mainstream PLC retail banks: the number of societies has consistently fallen, with the Ecology the last new building society to be formed back in 1980. The crisis and post-crisis landscape has seen a series of mergers between building societies as well as between mutual insurers. Looking ahead it is possible that consolidation will continue to be a feature of a market in which unusually, the creation of new players is virtually impossible. Moreover, changes to the regulatory landscape have increased liquidity and capital requirements. The latter, given the reliance of building societies on retained profit to deliver new capital and the limited ability for financial mutuals to raise capital in other ways, has restricted sector growth.

Whilst demand for mortgage lending was generally depressed following the crisis from 2009 to 2012[5], societies were required to bolster their capital ratios which was, in some cases, achieved through deleveraging activities, which may have inhibited the ability of many to engage with existing demand. Mutual insurers on the other hand faced a lack of growth in consumer demand and the abolition of government support for Child Trust Funds has had serious implication for some mutual insurers by shrinking this market significantly (Deloitte 2011: 6). However, since PLC alternatives were unable or uninterested in meeting demands, mutual insurers could effectively regain some market share lost during the period of demutualisation.

Indeed, mutuality continues to be an attractive choice to the consumer. In particular, there have been two noteworthy developments:

1) The Military Mutual opened for business in Spring 2015 serving military personnel and relatives.
2) Family Building Society, a subsidiary of National Counties, offers specialist products around the family, including family-member backed mortgages for first time buyers since Autumn 2014.

Yet, the creation of two new mutual brands[6] is not to be taken as a sign that barriers to entrants have reduced. Whilst representing a welcome addition to the mutual sector, these new entrants are semi- or totally dependent organisations: the latter is owned by the National Counties, whilst the former is financed through Builders Re, a European reinsurance company. It is to be hoped that they signal a market for new financial mutuals even given the significant barriers to new entrants such as £1million regulatory capital requirements for new mutuals, on top of the considerable capital spend needed to invest in systems, technologies, branches, branding, and so on.

[5] See https://www.cml.org.uk/news/press-releases/3772/ for more details
[6] Note: Family Building Societies is not a new, standalone institution and no new capital has been raised.

1.2 Is mutuality under attack?

One way of making sense of the developments over the past 30 years is to consider how the UK financial mutuals sector is threatened by an environment which has become increasingly hostile to the mutual form of organisation. Prior to deregulation in the mid-1980s, financial mutuals operated in restricted markets, but the changes enacted under the Conservative administration opened up these markets to competition. This was followed by a drive to convert mutuals into PLCs, consequently eroding the basis for financial mutuals in the UK. The true cost of the demutualisation experiment to the remainder of the UK financial mutual industry has been adequately assessed by the All-Party Parliamentary Group for Building Societies & Financial Mutuals (APG, 2006):

> *"…[the remaining mutuals appear to have responded well to the competition in terms of keeping market share but whether they have rallied to the cause of mutuality is more open to debate. The Inquiry concluded that the previous demutualisations have restricted consumer choice […] but it also found that competitive pressures are putting increasing strain on the mutual model."*

This assessment is mirrored in Michie and Oughton's Diversity Index (2013). Whilst many remaining mutuals are performing well, "competitive pressures are putting increasing strain on the mutual model" (APG 2006: 6). Moreover, demutualisation has resulted in consumer choice being restricted and initial windfalls have not compensated for the additional future costs through higher charges and poor product performance (APG 2006: 18 ff.). Lastly, the decreasing diversity in the system has arguably also contributed to the impact the financial crisis has had on the UK financial system because of mimetic business models dependent on short-term money market funding of major players in the market. More diversity could have reduced this impact as different business models would have reacted differently (Michie & Oughton 2013).

It is worth noting that of the six societies that chose to convert to 'own brand' PLC status, none exists today as an independent entity[7]. Liberal Democrat politician, then Business Secretary, Vince Cable, described the demutualisation of the building societies as the "One of the greatest acts of economic vandalism in modern times."[8]

Repeated regulatory reform, most recently the *Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (Butterfill Act),* gave additional impetus for consolidation of the sector by giving mutuals greater powers to merge or transfer their business. Although this was an attempt to ease restrictions and to give mutuals more room to manoeuvre and to rescue ailing mutuals, the Butterfill Act could be read as an effort to produce larger mutual challengers to mainstream alternatives.

[7] Abbey, Halifax, Woolwich, Bradford & Bingley, Northern Rock and Alliance and Leicester

[8] See: http://www.theguardian.com/politics/2012/jun/18/cable-laments-destruction-building-societies

Again, the (un-)intended consequences show that, since the crisis began in 2007, ongoing consolidation has further reduced the numbers of building societies. Indeed, a 2012 report by Deloitte has suggested a similar trend may be under way for mutual insurers which given the recent M&A activity in the market, now appears correct (Deloitte 2011). Although the concentration of assets has produced dominant players, smaller societies have benefitted little, and growth remains depressed due to access to financing options, as well as product market restrictions. We have yet to see whether the Mutuals' Deferred Shares Act 2015 will facilitate capital raising, where necessary by the mutual insurers and friendly societies (it does not apply to Building Societies)[9].

Given the competitive threat, focussing upon rebuilding strength by scaling up activities through growth and M&A activity makes sense. However, at the same time, the sector is competitively divided as organisations focus exclusively upon *their* members' interests, rather than making strategic capital out of members' broader interests in a collaboratively organised mutual sector. Furthermore, societies' constitutions require them to be run for the benefit of their members, rather than any wider stakeholder groups, as would be the case in 'social enterprises'. Yet, the members of individual mutuals are not totally insulated from wider developments in the sector, and they may be better served if they were considered both at the level of the individual organisation and at the level of the mutual sector, when decisions are made.

Moreover, since the Big Bang, the effort to remain competitive has, of necessity, shifted ambitions towards optimising financial performance, potentially diverting attention from the social as well as financial purpose of mutual organisations. For example, the initially celebrated merger between the Co-op and Britannia, driven by ambitions of the Co-op Bank to become a big player on the high street, and its later failure, has removed not one but two key players from the mutual sector. What remains is controlled by hedge funds rather than members whilst retaining the name continues to associate the Co-op with the mutual sector, with the attendant risk of weakening the legitimacy of the mutual brand and values.

In effect, one could argue that the mutual sector, when considered as a whole, has been rendered more fragile by individual organisations, responding to the influence of market competitive pressures and becoming detached from collective, sector-wide interests. The process of demutualising companies which exit the mutual sector, thus turning themselves into competitors operating in a considerably less restrictive environment, has been burdensome for the remaining mutuals, both with respect to competitive pressures and on a more personal, trust-based level. Furthermore, these changes to the structure of the mutual lenders and mutual insurance sectors have left their mark on mutual culture, prompting the sector to move away from collaborating and cooperating.

[9] For general discussion, see: http://www.thenews.coop/94045/news/general/legislation-will-enable-mutual-insurers-to-raise-capital-from-members/

As a consequence, financial mutuals look almost exclusively after the interests of their individual organisations, with diminished attention upon the ‘common good’ of the mutual sector, including the creation of common resources at a sector-level, as well as the contribution that the sector as a whole may make to national well-being. Consequently, little strategic capital has been spent in considering how the interests of individual organisations may be advanced through the pursuit of the collective interests of the whole sector.

Given this background, our report is distinctly forward-looking. Now that financial mutuals have weathered the challenges of increased competition and demutualisation, they need to strategically plan their future. Previous developments in the mutual sector can be understood as actions responding to market (and regulatory) pressures in which the scale and health of the sector is ultimately measured through the competitiveness of a few larger institutions. This has created conditions for a sector in which it has become accepted practice for member firms to act in their own interest, or in the interest of their members. However, this is problematic for the financial mutual sector as members who seek an alternative future are forced to the periphery because they do not meet the demands for success set by market regulators.

With this in mind, re-envisioning of the sector must not just focus on measurable dimensions of organisation and sector success such as size and growth, but must also consider dimensions of intangible value creation, such as connecting mutual values and culture to the development of social and technical practices of collaboration and co-production. Moreover, leadership development needs to attend to the production of sector-level leaders capable of working systemically, and to ensure that CEOs and associations understand how they may work together to find strategic solutions which ignite the appetite for collaboration.

2 Understanding Collaboration in the Financial Mutual Sector

As argued in section 1, UK financial mutuals have acted overwhelmingly in their own members' interests. This is not to say that both the building society and mutual insurance sector lack experiments in cooperation. Indeed, there have been a number of attempts to collaborate and organise collectively, mostly involving two or a small group of societies. Some of these worked, others failed, and others again have produced mixed results. The following sections categorise past and current initiatives according to some underlying characteristics.

2.1 Tactical resource sharing with dominant players

These collaborations are characterised by one financial mutual offering other mutual organisations access to their resources. These deals can, in theory, be mutually beneficial. Mutual A has invested considerable resources in a specific technology or to develop a specific product and seeks to capitalise on it financially by selling access to Mutual B. Mutual B on the other hand can access these 'superior' resources or products for a fee to either increase income or to reduce costs. For example, Skipton invested considerable resources in its internal processes and gave access to other societies for a fee which later on resulted in the take-over of a main stake of 80% by Mutual One, with other building societies retaining a small stake.

However, these types of arrangements are subject to the terms and conditions of the contract, thus collaboration is limited and the initiative quickly transforms into a service provider in which non-dominant stakeholders have limited capacity to influence developments more broadly. Moreover, they are to some extent dependent on Mutual A's interest in continuing to give access, and on the profitability of the venture. This means that if Mutual A retracts these services, or as in the case of Mutual One, the key stakeholder, i.e. Skipton decides to refocus on core activities after the financial crisis and the sale of Mutual One to Baker Tilly, Mutual B is potentially left without access, unless they continue to purchase the services from the new owner. As this means that Mutual B is not investing in this particular area itself, it may present considerable problems in the longer term, or a continued dependence on service providers that are owned by for-profit companies.

2.2 Selective bilateral co-operation

These are arms-length agreements between two mutuals which are of commercial benefit to both. Here, one party to the contract sources a product from the other party to effectively cross-sell and thus widens its product or services range for the benefit of its customers.

Examples include Nationwide selling Liverpool Victoria (LV) car insurance or Market Harborough using Skipton Financial Services (SFS) to bring in financial advisors.

These arrangements are made because they generate additional income for both parties, and arguably have benefits for members who gain access to superior products and services. At the same time, there may be benefits in terms of cultural fit. For example, LV's car insurance product has been successfully sold through Nationwide and the contract has been renewed on the back of the success. This arrangement goes beyond the more standard approach to cross-sell 'white labelled' products from a third party provider as scale allows Nationwide and LV to coproduce the product in joint meetings. Likewise, Market Harborough and SFS have joined forces because of their cultural proximity; still, commercial viability is equally important. Bringing in external financial advisors is a key mechanism to reduce compliance risks linked to giving financial advice for building societies, thus enabling Market Harborough to expand its product range whilst being confident that advice is in the interest of the customer.

Again, to consider these types of arrangements as a long-term strategy to encourage collaboration at the level of the sector more generally is misleading as it offers only limited scope for actual collaboration. Indeed, in many instances these types of contractual dealings require little sharing of resources beyond access and limited adjustment to the product sold as traditional white label products. 'Actual collaboration' on the other hand would require a more fundamental shift in the underlying business model which requires the co-creation of new operating practices against a shared strategy/purpose, rather than 'mere' partnership or coordination.

Indeed, with increasing economies of scale across the sector, there is opportunity for a more developed exchange of knowledge and resources between the parties involved. Hence, the value of economies of scale can be considered as underlining the potential for more widespread collaborations – for example, equity release products could increase the scope for partnerships between mutual insurers and building societies – or at the very least, opportunities for cross-selling within the sector on a larger scale involving one mutual insurer and a number of building societies co-creating a product that is tailored to the societies' member needs.

2.3 Mutual third-party approaches to collaboration

These forms of collaboration signal a deeper and longer-term focused commitment of organisations involved in a shared strategic project. The prime example for this type of arrangement is Mutual Vision (MV). MV, is a mutually-owned provider of back office software to building societies. Instead of having a more traditional commercial-client relationship, building societies and MV collaborate to establish requirements for software updates collectively and costs are split across all participating organisations. Because (some) building society customers are also owners, mutual values are enshrined at the core of the organisations, seeking to provide modular products and services within a pre-agreed annual charge, made possible because there are currently no ambitions to maximise profit. The product itself is tailored towards the needs of building societies and has an in-built flexibility to customise offerings as demanded. If a single society requires a specific expansion tool to the main software to perform specific tasks, then these are developed on a one-to-one basis and the society will bear the costs itself. Moreover, costs are kept at bay through a shared service centre similar to those larger scale operations seen in the German and Finnish cooperative sectors. Development groups featuring MV and building society staff focus on specific requirements.

MV's success can be attributed to two main aspects: 1) its service offering provides building societies with tailored software at low cost, thus inserting a financial incentive; and 2) its service provision may be considered superior to other providers because its processes are not sales-oriented but are customer-focused, meaning that resources are invested into service delivery and not retained as profits.

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

2.4 Sector-wide initiatives

These types of collaborations structure consensus across the sector, and are considered valuable ancillaries by the trade associations and members because they tackle specific problems linked to technocratic/regulatory issues.

One key strategic aim for UK financial mutuals has been to improve their ability to raise capital which required legislative adaptations being made. Conversations with legislators have positive impact because they are strategically planned through associations, with support from member societies. In other words, they are examples of collective engagements at the level of the sector. The recent passing of the Mutuals' Deferred Shares Act 2015 illustrates the effectiveness of such an approach which ultimately benefits all stakeholder organisations. In a similar way, building societies have over a number of years lobbied for the development and legislation of capital raising tools, and in 2013 succeeded with Nationwide being the first society issuing Core Capital Deferred Shares (CCDS), and in 2015 the Building Societies' Association and some of its smaller members successfully made the case for the sale of CCDS to their members, potentially opening up the use of CCDS to a wider range of societies.

Whilst these developments are commendable and illustrate the capacity for collective action, they are short-term and outcome oriented. Moreover, they engage with problems that are legislative in nature. This means that, whilst they ultimately benefit all stakeholders, once the milestones (i.e. the passing of the legislative amendment) are achieved, there is limited reason for organisations to maintain collective engagement.

Recent sector-wide collaboration has also succeeded in creating a masters programme in partnership with Loughborough University. Driven by the BSA, with the support from some building societies, this programme can be regarded as a first step towards fostering a mutual culture across the sector. Formal education will play a supportive role in creating a shared culture, particularly where this results in initiatives or programmes to co-educate staff from different building societies. Some examples of these are already available to the co-operative sector in Germany and ethical banks. However, the sector lacks a model of sector-level leadership with distinctly mutual characteristics which would support the development of leaders capable of orchestrating system-wide collaborations. This will be discussed in section 4.

Generally, collaborations and initiatives to co-produce and co-organise are limited in the UK: most are tactical arrangements are between two or more parties which are unavailable to the sector as a whole. Moreover, these approaches, in the main, appear to be ad-hoc or problem-oriented, rather than strategically aimed at producing a more collectively organised financial mutual sector in the UK.

Nonetheless, credit unions, who have also experienced an historical lack of collaboration, have begun more recently to foster strategic engagement with financial support from government. The Cornerstone Project[10] offers a strategic and long-term engagement in creating IT platforms and ancillary services that can be shared across the sector, thus reducing duplication and offering, arguably, fit-for-purpose product and service solutions that meet credit unions' needs. The aim here is to enhance the efficiency of credit unions and to reduce costs in the long term. Yet again, this step is not accepted by all members of the credit union sector as the right way forward at this moment in time, with only a quarter of ABCUL members participating to date. However, as with building societies and mutual insurers, credit unions value their independence, and, therefore, additional credit unions may only be encouraged to join this strategic movement once evidence illustrating the material advantages is available.

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

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[10]For more information, see: http://www.thenews.coop/40359/news/business/credit-unions-hard-work-has-only-just-begun-expansion-sector/#.U7vi7Y20_I8

These include:

1) Sector-wide collaboration cannot be developed without a strategic vision and a long-term (5 years+) horizon. Short-term solutions to problems provide only limited potential for a more pronounced arrangement to share costs, risks and rewards across the sector.
2) Members are understandably sceptical towards change, but at the same time, not all members of the sector need to buy into the idea of collaboration from the beginning. A committed core of organisations may join together to generate innovations and establish common resources aimed at strategic collaboration. Such initiatives will be judged by their success, and may create more demand from within the sector in the longer term.
3) By working together, the credit union sector has attracted some vital capital, as well as government support, which would not have been made available outside a collaborative approach.

3 Learning from International Examples

The ambitions of the building societies and the mutual insurers sectors to collaborate and cooperate appear to be more tactical, and less strategic, than those in other international cooperative systems. When looking at these international examples, the key obstacle in the way of a more cooperative UK financial mutuals sector is the value mutuals place upon their independence, inhibiting them from relinquishing sovereign power to an umbrella organisation, or to a dependent or mutually-owned company that has the capacity to coordinate and monitor activities across the member organisations. The importance placed upon the individual organisation at the level of operation further explains why organisations appear to be somewhat cautious in accepting the sharing of resources and costs as an opportunity for the sector to develop. Yet the values and principles of mutuality point to inescapable interdependences, not only between individuals but also between organisations. This is not simply a philosophical ideal, but a pragmatic reality for many sectors, from integrated public services to global supply chains which discover (painfully) their shared vulnerability and reduced resilience to shocks when individual organisations fail to acknowledge their interdependence by instituting collaborative mechanisms for mutual benefit.

The following sections will explore different kinds of collaboration, where collaboration is an alternative form of organising to integration and centralisation. This does not imply that collaboration must supersede competition or independence. Instead, we suggest that collaboration moderates competition so that financial mutuals can jointly strengthen their position in the broader financial services industry. Doing so would potentially benefit smaller players, both at MI and BS level, by enabling them to engage more competitively in the market through the joint creation of mutual institutions and common resources capable of providing them with services and products. The result is a system based upon 'pooled sovereignty', and even federated arrangements, where the flourishing of each is secured through a shared operating model and governance system.

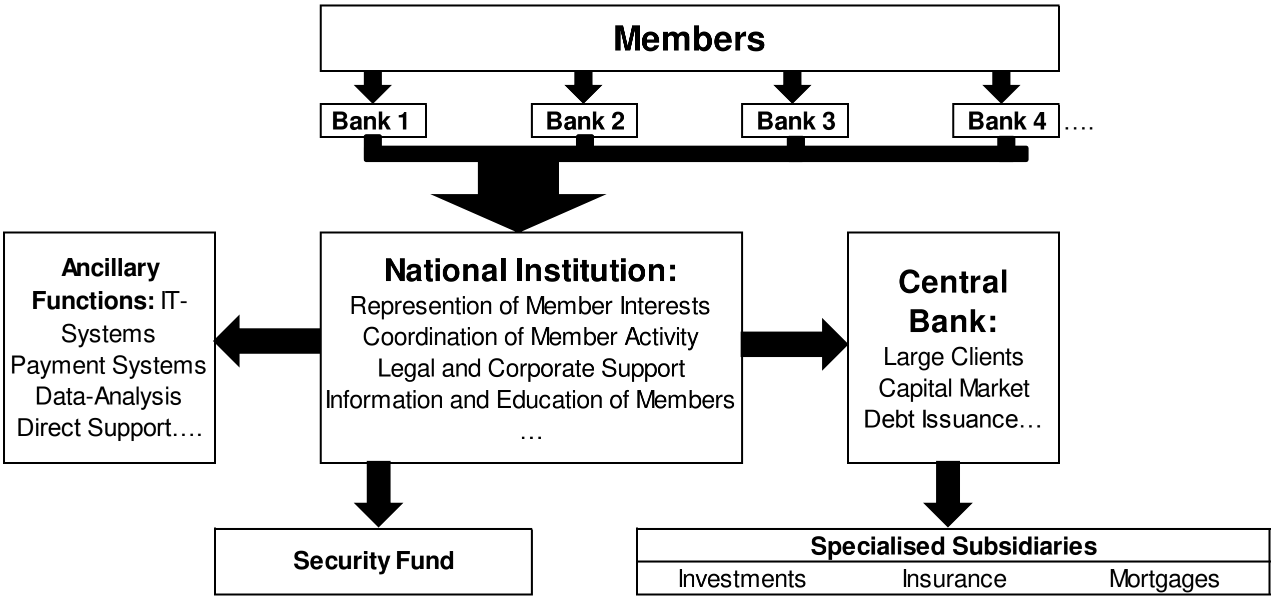
"The financial mutual sector and the mutual sector in general should be doing more. I think the biggest criticism, going back to austerity, is that actually, the mutual sector did an awful lot of navel- gazing and talking. This is the time. This is the time now to really put our feet forward."

Lawrence Christensen – Marketing Director of Benenden Health

3.1 Integrated co-operative systems in Canada and Germany

The following discussion draws upon classical systems of cooperative banking, the Canadian *Desjardins* and the German *Volks- und Raiffeisenbanken* systems, that have integrated functions since the early 20th century. These federalised systems, mapped out in Figure 3, can produce an environment in which small, locally rooted cooperative banks can thrive. Within these systems, member banks jointly own a national umbrella institution in which decisions about the future of the sector are made jointly with participation from individual member banks under democratic principles.

Figure 3: Schematic overview of cooperative systems



The sectors are organised to assure the independence of individual banks, but at the same time, retain a collective identity: customers own the banks and the banks collectively own the central structures via the national institution. As illustrated in Figure 3, democratic governance is a feature of these integrated systems. Customers can voice their interest at the level of the individual bank. Banks' interests are represented in a federation through elected representation. In addition, the German system employs a series of special boards in which, on a rotating basis, elected members from both independent banks and central institutions make strategic decisions on a range of issues, including product market, infrastructure and payment services which are then either implemented or act as guidelines.

Whilst guaranteeing independence, central institutions also have oversight for the whole sector, ensuring that, for example in the German case, the Cooperative Law is adhered to in the day to day operations of member banks, and that regulatory and legislative requirements are implemented. Moreover, because independent member banks' accounts are consolidated for the purpose of financing activities in the markets, financial sustainability and an internal ’regulatory’ system is enforced. Failure to do so could have significant implications for their credit rating as provided by agencies at a group level rather than for individual banks.

These systems feature a kind of central bank with the purpose of accessing the money markets and refinancing the operations of the sector. Because this happens centrally, economies of scale can be realised that would ordinarily be limited to large international financial conglomerates, thus allowing even small cooperative member banks to compete successfully with large competitors in a range of activities. Moreover, investment activities are being undertaken. However, the recent involvement of Rabobank in the LIBOR rigging scandal has shown that the overall power and activities of these central banking actors must be carefully outlined, and appropriate governance structures put in place. This is to ensure that there is no disconnect from cooperative or mutual values, and for both reputational and financial reasons, in order to reduce a potential backlash on member organisations and the sector as a whole.

A further key feature of these cooperative systems is the presence of central actors which provide products and services tailored to sector needs. Again, because these products and services are developed for all member banks, operations are scaled up, reducing the cost of products and services provided. In addition to scale, economies of scope can be realised, enabling member banks to provide universal banking services making them attractive to customers who seek to receive a wide range of services from their account provider, including mortgage, insurance, investment and pension products.

Mutual insurers, financial advisors and investment companies are essential features of the sector enabling small member banks to provide a universal banking experience. Thus, the integration of those organisations is not secondary, even though they often operate technically as subsidiaries of the central association or clearing institution. Rather, they are of importance to all the member institutions and are national operations, hence their belonging to the national organisations.

Crucially, member banks, whilst encouraged to use sector products and services, can opt for products provided by external parties. Many member banks opt for internal products, which is not simply a consequence of top-down pressures, but due to products being suited to the prudent character of cooperative banking and regularly rated highly in comparisons with commercial competitors.

Moreover, solidarity funds are in place, financed through annual contributions from individual member banks, to allow for bail-out of ailing members by the sector. This presents an alternative to mergers with other cooperative banks and/or acquisitions from external parties, such as hedge funds, as witnessed in the UK. However, there has been little demand for bail-outs historically[11] because centralised risk assessment and oversight gives central institutions a clear picture of potential problem banks, thus preventive and corrective steps can be taken well in advance.

Yet, despite the potential benefits to be achieved from installing such a system in the UK, conversations with key stakeholders in the sector have surfaced considerable resistance to it. This is for a number of reasons. First, the associated cost and complexity of such a project are significant. Second, member banks fear a loss of independence. Third, current legislation and regulation would require considerable rethinking to suit such a project and would run counter to the current government interest in scaling-up challenger banks. Moreover, larger players would find the creation of such a new operating model unattractive because they possess already established systems, giving them a competitive edge over smaller societies, and making them more attractive to customers that seek universal bank provision from mutual alternatives.

A broader understanding of how all the individual organisations in the mutual sector – large or small – share a common fate would include an examination of how individual organisations may play a role in the creation of an ecosystem of mutual financial services (building societies and mutual insurers). This would be aided by a multi-dimensional assessment of performance which aims at both social and financial outcomes, and at the organisational and sector levels. This is a challenge. Unsurprisingly, it is often the smaller organisations that perceive the value of strengthening the mutual sector by centralising some product market and infrastructure aspects. Given that the structures that govern the Canadian, Dutch and German cooperative banking sectors have come into being through a lengthy process beginning after World War II at the latest, the magnitude of replicating structures becomes quickly apparent.

3.2 Repurposing cooperatives: a case study of Finnish cooperatives

Despite the barrier of complexity, the Finnish cooperative banking sector (OP) has decided that, given the challenging market conditions during and after the 1990s Finnish banking crisis, centralisation would be the best option to future-proofing the sector. Clearly, in the Finnish case, a matter of urgency and government interests give impetus to reform, but importantly, stakeholders from within have been key to the transformation (see next section for details).

In essence, the Finnish example employed a top-down implementation strategy, thereby demonstrating how it is possible to significantly reorganise a sector when such a move is supported by organisations within the sector as well as external actors, in particular

[11] For example, since the creation of the German protection scheme, no member bank has ever become insolvent and required a bail-out. For further information, see: http://www.bvr.de/About_us/Our_protection_scheme

government. However, it is important to keep in mind that in the Finnish case, the move was necessitated by an external shock, i.e. the banking crisis, which provided the momentum for change. Moreover, the centralisation was undertaken with the support of government and regulators, and thus, despite leaving the decisions to join the OP sector remaining with individual cooperative banks, helped swing support towards the new system.

Following a period of deregulation of the Finnish banking sector which saw banks increasingly engaged in speculative activities, Finland faced a banking crisis in the early 1990s affecting all types of banks.

Within the cooperative banking sector the problems were more isolated, but prompted key stakeholders to review the structure and culture of the sector in order to regain control over lending and investments and to prevent failures and future bail-out requirements of cooperative banks. Effectively, the subsequent changes should be understood in the light of steps taken to re-regulate banking.

Prior to the crisis there have been some central institutions, for example, the guarantee (or solidarity) fund established in the 1930s. However, the crisis has shown that whilst these institutions have merit, it requires as much an ex-post 'rescue mechanism' for failing banks, as an ex-ante monitoring system, in form of centralised risk-management to manage the health of the sector.

IT integration was a major requirement for integration purposes. One key aspect was to provide the sector with a uniform infrastructure; the second was to collect financial data to monitor developments sector-wide. Over time, more central institutions have been established, providing services and products to cooperative members.

Initially, member banks were understandably concerned about the potential impact of centralisation on their independence and a loss of freedom. Yet over time, and because the new system has proven itself as resilient and, crucially, interested in the affairs and concerns of small local cooperatives, most have changed their attitude and consider the move to centralise and integrate the right choice.

Cooperatives that remained independent from the OP cooperative group are now reconsidering their options amidst government and regulatory pressures. Today, the sector is the leading (domestic) financial institution in Finland, ahead of Nordea in terms of market share (34% versus 29%), lending to households (36% vs. 29%) and number of bank branches (in Finland, 459 vs. 190) (FK 2015) . Its scale and scope of operations also mean that sources of profit are more diverse than for other banks, with approximately 30% of profits coming from insurance, fee and commission and net interest income. Moreover, current developments in the sector seek to arrange a new tier of governance within the system in which each region has a larger bank that provides support for smaller banks, i.e.

it represents an additional layer within the structure allowing smaller cooperative banks to retain their independence, as small locally focused cooperatives are seen as valuable within the OP system.

Whilst the recent global financial crisis was more significant in magnitude than the Scandinavian Financial Crisis in the early 90s, early political ambitions to reshape the financial services industry have gathered little traction, and to date had a limited impact at structural level. Despite early calls for substantial reform, changes within the UK retail banks and insurance industry have been mostly regulatory and legislative adjustments. Yet, there has been limited political will to restructure these markets more substantially. This lack of strategic imagination can be seen in how governments are dealing with nationalised banking assets; for example, Lloyds and RBS are simply being returned to shareholder ownership. More pertinently, calls for the remutualisation (Michie et al. 2011) of failing challenger banks have been decisively ignored by policy makers; instead, ownership has been transferred to new challenger entrants, such as Virgin Money, or been absorbed by ambitious foreign banks, in particular Santander. Moreover, although the period of crisis was difficult and has generated substantial problems for a small number of financial mutuals in the UK, the sector as a whole has been able to cope with the turbulent markets. In other words, there was no justification for an external intervention by government or regulators to reorganise the mutual sector as seen in Finland. Therefore, whilst we can only speculate about the potential impact of such an external intervention, inaction has effectively retained the status quo of market-based solution to the problem, namely the continuous consolidation of the sector witnessed since 2007.

3.3 Inter-organisational mutuality in the French system: COVEA

Within the mutual insurance market, the case of the French SGAM company signifies the potential to regroup mutual insurers employing collaborative principles. Facing stricter regulatory requirements, French mutual insurers felt the need to regroup but this was difficult given the lack of options before 2001. The creation of the SGAM in 2001 enables mutual companies in the broader sense (PLCs are excluded) to establish links under a legal structure without surrendering their independence during that process (Gema 2012).

The attraction of the SGAM framework lies in its flexibility to choose the degree of cooperation, from creating basic synergies and information exchange, to integrated systems with strong financial links between the members. Acting in solidarity with other member organisations is a key aspect of SGAMs, i.e. should a member be in (financial) difficulties, other members would support that member as set out in the SGAM agreement. The commitment and duties are agreed upon by members during the negotiation process prior to the structure being established, and thus the rules of the cooperation are in place and reflect the members' interests. The interests of each member organisation are represented at the level of the board and governance structures are in place to monitor, or in some cases sanction the behaviour of individual member organisations as laid out in the rules of the SGAM. Hence, member mutuals also commit to share financial information with the SGAM so that the financial health can be assessed every year and consolidated accounts can be generated for the SGAM.

The SGAM itself is not directly involved in business activities, but its purpose is predominantly to administer the agreement between its members; in other words, its key function is to coordinate and steer member activity in accordance with the agreement reached. One example of an SGAM is Covea, a French SGAM with 9 member mutual insurance companies with a combined turnover of €13.5bn. Its mission is to both “develop and ensure the continued existence of its member[s]”, to respect the members’ independent brands and to coordinate activities in order to create synergies and optimise the organisation in the process (AMICE 2011).

Given the flexibility afforded to SGAM members to choose the level of integration and cooperation desired, this tool may indeed prove suitable to reorganise and future-proof the mutual insurance sector in the UK precisely because it retains the individual organisations’ independence whilst also enabling synergies to be realised from the sharing of certain activities. The central theme here may also be of interest to other mutual organisations, including building societies and credit unions, subject to regulatory and legislative consideration. Indeed other examples (AMICE 2011) of pan European cooperation and the proposition of an ‘European SGAM’ further underlines the potential for a more integrated European mutual insurance sector based on similar understanding of mutuality more across Europe (Gema 2012). This could prove an effective tool to ensure a level playing field between listed, cooperative and mutual insurers.

3.4 Mutuality in Australia – Centralised access through Cuscal

A further interesting example of how to provide a range of products and services via a central body can be found in Australia. Cuscal, an Australian deposit-taking institution, has its origins in the credit union movement, yet its current form dates back to the early 1990s. It also acts as the trade association for Australian credit unions and cooperatives.

Its prime objective is the provision of principal payment, transaction and treasury services to all market participants within Australia. In doing so, it achieves its objective of stimulating competition within the Australian banking sector by reducing barriers to entry linked to access to infrastructures, which arguably stifle new-market entrants in the UK. As a well-established institution, its customer base does not only include credit unions but also number of established and challenger institutions, including National Australia Bank (one of the Big4 Australian banks) and BankMecu (Australia’s first member-own bank). To some extent, Cuscal’s role can be compared to that of DZ Bank in Germany or Rabobank Nederland which provide payment and treasury services to cooperative members.

Cuscal itself is governed through a series of committees and working groups with clients directly involved in the decision making processes. Here the system resembles in part the German cooperative banking system that has a similar range of working groups established to discuss strategic developments in areas such as payment infrastructures and products.

This system presents an alternative option to implement a non-privately-owned infrastructure provider in the UK. Currently, clearing services are dominated by the Big4 banks, Nationwide and the Co-operative, and terms of access are negotiated on a case by case basis representing a potential barrier to challenger banks. Introducing a system that is owned collectively by its customers, or a government sponsored entity, could transform the UK banking industry's competitive landscape substantially. Thus, such a service would enable 'challenger banks', be it building societies, credit unions or for-profit banks to access principal infrastructures through an independent provider, bringing important benefits to those banks attached to it.

"A few years ago we had some people come over from Australia, some representatives from the Australian building societies, they came over and they were shocked by how little we did together. The same in Germany, they have central units who do virtually everything for them."

Stephen Mitcham – CE of Cambridge Building Society

3.5 Teaching Mutuality: current education and learning initiatives

Given the recent collaboration between the BSA and Loughborough University to offer a masters course on Leadership and Management to member organisations, it is clear that education is an additional area where mutuals can collaborate. Taking such a step may reduce its reliance on mainstream banking education offered by business schools or private educational institutions which may be in conflict with mutual values. Again, the German cooperative sector is a helpful source of information with three instructive examples:

The first is *Geno-Akademie*, which is an educational partner institution of the German cooperative sector with the aim of educating employees working for financial and non-financial cooperatives in various positions such as compliance, private banking or managerial level. Geno-Akademie offers a pragmatic, market-oriented approach which moderates conventional banking education within the cultural context of cooperatives. Moreover, it offers a number higher education programmes, including bachelors, diplomas and vocational study, developed with partner organisations from within the cooperative banking sector. Second, the *Academy of German Cooperatives* (ADG) is an additional educational facility within the cooperative sector providing tailored seminars, workshops, webinars and higher educational programmes to the cooperative sector for senior management and executives.

The third example targets a very specific niche area of banking – ethical banks. The key aim of the Institute for Social Banking (ISB) is to ensure that those involved in ethical banking are literate not only in banking, but also in understanding the needs and wants of the wider social economy, whether organic farming, social housing or community-financed renewable energy projects. ISB clarifies and maintains the differences between mainstream and cooperative banks. For example, whilst profitability and financial literacy are clearly relevant, the ISB stress that other outcomes are at least as relevant as financial sustainability itself.

In many ways, establishing educational facilities could prove a useful tool for financial mutuals in the UK to bring the sector together as it may result in people being more proactive in contacting peers to exchange information or indeed collaborate more intensively. Moreover, doing so would enable the sector to ensure that all staff, not just at a senior level, have a clear understanding of mutuality at both the level of the institution, and of the sector which would benefit the fostering of mutuals' values in the long term.

In addition, financial mutuals may be more open to creating such an institution, given that it has no impact on their independence and would not impact on operations; thus, at least in theory, the process itself may be reasonably straight-forward and could lay ground for additional meaningful cooperation in other areas, ancillary or core.

4 Three Strategic Scenarios – Independence, Partnership and Collaboration

We propose three broad scenarios for strategic development: independence, partnership and collaboration. Together, these describe a continuum of activities from individual organisation-focused initiatives (*independence*), shared partnership based projects such as cross-selling (*partnership*), through to a breakthrough whole sector strategy, producing a new business model, even to the extent of instituting federated arrangements (*collaboration*). We argue that the 'collaborative logic' is already being deployed in the financial mutual sectors of other countries, and moreover, is now a vital feature of the strategic development of many public and private sectors, ranging from aerospace and automotive industries to healthcare and the management of natural and agricultural resources in global supply chains. For many sectors, collaboration has become unavoidable, as organisations come to recognise their mutual interdependence when addressing the complex social and environmental challenges which affect their ability to trade. The consequent projects of collaboration frequently aim at social, natural and financial purposes, involve multiple stakeholders, create networked institutional arrangements and practices of meta-governance, and produce shared value. However, these are not easy undertakings, requiring the development of new strategic capabilities.

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

In laying out the three scenarios, we draw upon mutuality as a philosophy or set of ideas which describe how we are to live with one another. As such, mutuality is concerned with the values, principles and practices which specify the productive conditions under which we are prepared to join our effort to those of others in order to secure together what one cannot secure alone. As an organising philosophy, the objective of a mutual organisation is to distribute among all affected stakeholders a fair share of the benefits and burdens arising from that organisation's activities (Yeoman 2016). Mutuality possesses the following attractive features for business organisation. It is:

- Rational – grounded in a logical integration of values, principles and practices;
- Justifiable – based on reasons which anyone can understand;
- Affective – emotionally engaging and motivating;
- Pragmatic – generates implementable programmes of action.

Table 1: Three scenarios for future mutual development in the UK

	Scenario One: Independence Organisation level	**Scenario Two: Partnership** Inter-firm	**Scenario Three: Collaboration** Whole sector
Mutuality	**Reviving the Mutuality Principle:** Motivate stakeholder relationships (employees, members and customers); Raise governance standards; Educate new leadership population; Demonstrate contribution to a healthy financial services industry.	**Extending the Mutuality Principle** Joint benchmarking and working in cohorts to develop practices for organisational level implementation; Shared leadership programmes; Co-creating new products and services.	**Transforming through Mutuality** Generate a 'mutual sector'; Create new operating model, including a system orchestrator and collaborative governance regime; Neither competition nor cooperation; Integrative leadership model.
Internal Strategy Levers	**Individual Organisation Capability Development:** Using elevated staff engagement to achieve efficiencies and better customer service (culture, values, leadership, participation and job enrichment); Leadership model based upon mutual values; Organisational evaluation and metrics attentive to measuring mutuality, and social as well as financial purpose. **Governance** Remains at the organisation level with attention to improving member engagement by creating new 'voice practices' and ensuring professional expertise upon the Board	**Inter-Firm Capability Development:** Achieving elevated internal, organisation-level competencies through creating cohorts of similar or like-minded mutual insurers and building societies; Leadership education tailored to the specific specialist requirements of each cohort; Generating new operating models; Joint marketing and scale initiatives; Shared innovation in product development, such as cross-selling. **Governance** Remains at the organisational level but with organisation representation on temporary project-based governance arrangements. Includes co-owned projects, such as MV, which may add an additional layer between a	**Whole Sector Capability Development** Mutual values and principles; Structural and institutional arrangements; Knowledge and learning; Resources and power-sharing; Integrative/system leadership. **Governance** New system-level governance based upon collaborative principles This may include a federated regime (pooled 'sovereignty' operating to the principle of subsidiarity)

		few organisations, but not at the level of the sector.	
External Strategy Levers	**Market Shaping:** Achieving improved external strategic positioning through influencing new market arrangements. Example would be the creation of a health insurance safety net in partnership with government and the mutual insurance industry. **Level playing field:** Regulation, access to capital. **Mutual Contribution to Healthy Financial Services Sector:** Reputation, and public trust; Diversity, and resilience of the financial services sector as a whole, is maintained. But although the sector would continue to exist, the number of individual players may well decline.	**Comparative Advantage:** Improving the competitive position of those mutuals involved in a partnership; Developing organisational capabilities for sustained cooperation; Opportunity for leadership development; Opportunity for reaching out to new customers and extending membership. **Diversity:** Diversity is maintained, but not necessarily increased.	**Societal Need:** The urgent need of the financially excluded; The shared need for trusted financial services; The economic need for financial services in support of economic development. **Competition and Diversity**: Strengthening of the whole sector to compete with shareholder-owned banks and insurers. Goes beyond 'mere diversity' to making diversity count in market influence and power by collectivising mutuals. May need to assess the current range of corporate forms and identify opportunities for innovation in corporate structures.
Value Creation	**Individual Value Creation:** Value accrues to individual organisations.	**Joint Value Creation:** Value accrues to individual organisations (but more than one at the same time).	**Shared Value Creation:** Changes the way in which value is created and distributed for the whole sector.

In discussing these scenarios, the potential future impact of proposed actions will be outlined. The aim in doing so is predominantly to highlight how and why a new vision for the UK's financial mutual sector could enable the sector to move beyond consolidation and relative decline. Moreover, we argue that even though recent developments, such as gains in market share, suggest superficially that all is in order in the financial mutual sector, these recoveries may have only limited potential to future-proof the sector. Instead we are focusing attention towards a longer-term project that seeks to not only ensure that individual mutuals may benefit from market opportunities, but that the sector as a whole may be advanced, making it more able to compete against mainstream competition. Yet, such a third scenario cannot be achieved through a quick fix and would, for example, benefit from the creation of new mutuals to cater for specific markets or to support existing mutuals by centralising some operational functions. In particular, such a collaborative system will require considerable changes to how organisations and the sector as a whole are governed and organised, demanding particular attention to collaborative relationships between stakeholders and new practices such as systems leadership.

4.1 The Mutuality Principle in inter-organisational relationships

"What mutual gives us is that longer term view which gives us a style of behaviour which is a little bit different as well"

Dick Jenkins, Chief Executive of Bath Building Society

We argue that the following key elements are useful for thinking about inter-organisational relationships. These elements are particularly important for successful strategic projects pursued under scenario two (partnership) and scenario three (collaboration):

1. **Mutual relationships** are the foundation of Mutuality. Mutual relationships are characterised by: *inter-dependence*, *inclusiveness*, *cooperation* and *human values*. Mutual relationships operate between individuals, individuals and organisations, and between organisations.

2. **Three dimensions of the Mutuality Principle** describe the different ways in which organisations may interact. These dimension are bargaining, cooperating and becoming (Yeoman 2016).

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

4.2 Mutual relationships

Mutuality is fundamentally relational and interactive. The primary principle of mutuality is the Golden Rule or Law of Moral Reciprocity, expressed as ‘Do unto others as you would have them do unto you’ (Gewirth, 1978). Grounded in this principle, mutuality is concerned with the features of social organisation which generate the mutual relations we need for self-determination and for flourishing. Mutual relationships possess the following features: interdependence (unavoidable for living a decent human life), inclusiveness (‘all affected’), cooperation (vital for coordination and a sense of solidarity and belonging), and human values (equality, fairness, care, respect, esteem and dignity). Where mutual relations exist between individuals and organisations, trust and confidence is built up, facilitating information sharing, joint working and deliberation.

Table 2: Three dimensions of the Mutuality Principle

Dimension	Ethical Orientation	Moral Concern	Key Principle	The Key Question
Bargaining	Fairness	Exploitation	Reciprocity	What do I lack which you can provide?
Cooperating	Care	Alienation	Contribution	What can I contribute to promote our shared interests?
Becoming	Flourishing	Capability Distortion	World-Building	What I need for acting and being I recognise you need also

Source: (Yeoman 2016)[12]

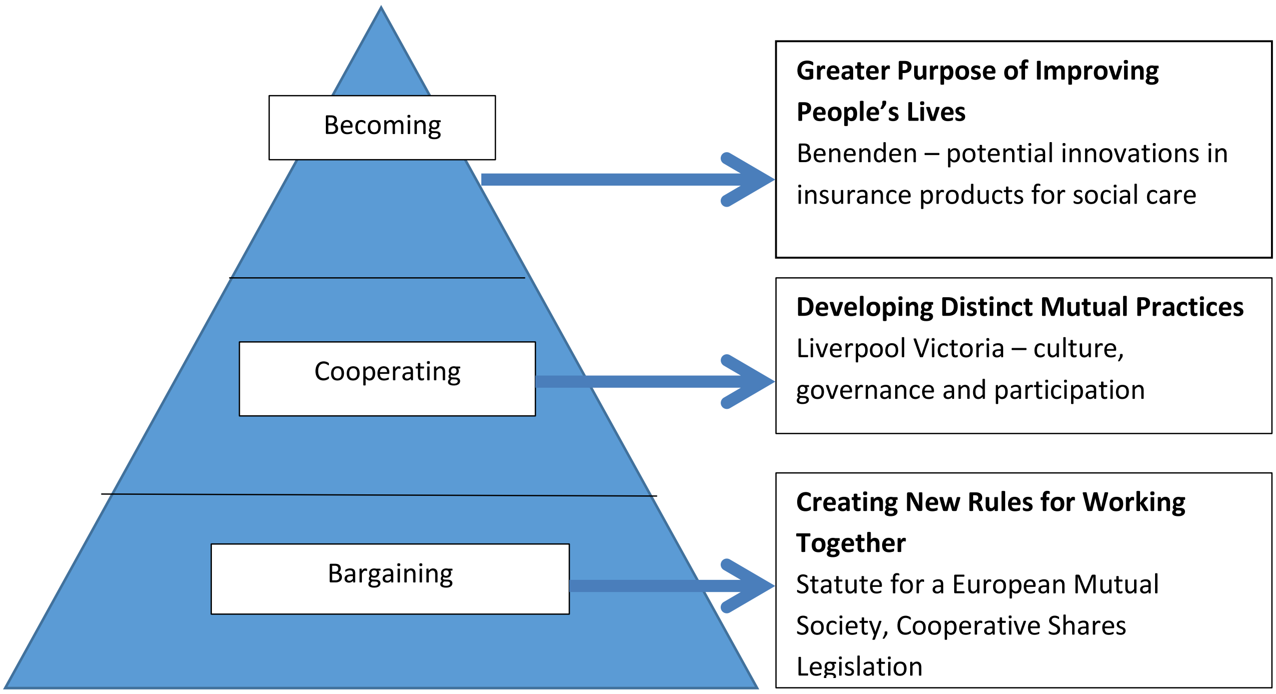
We argue that organisational relationships in the UK financial mutuals sector, whether under the independence, partnerships or collaborative strategic scenarios, need to be demonstrably mutual, across all three dimensions of mutuality (Yeoman 2016). These dimensions are: bargaining (associated with fairness and reciprocity); cooperating (associated with care and contribution); and becoming (associated with flourishing and world-building). In any organisation, these dimensions will be enacted to a greater or lesser degree depending upon that organisation’s policies, practices and processes. In a member-owned organisation, however, co-ownership makes it more likely that the organisation will develop capabilities across all three dimensions. Furthermore, creating policies, practices and processes consistent with the three dimensions is necessary not only for individual organisations pursuing strategies under scenario one (independence),

[12] See also Tischer et al (2016) for a framework for evaluating mutual performance.

but also for collections of organisations seeking to create new institutional arrangements under scenarios two and three (partnership and collaboration). Policies, practices and processes of mutual organisation protect against the harms of exploitation, alienation and capability deformation. In bargaining, the rules of the game can be operated to the advantage of some who are able to appropriate the benefits of bargaining with no regard for the welfare of the disadvantaged (exploitation); in cooperating, people can be disengaged or disaffected in relations vital to their well-being such as their work, their colleagues, their sense of self, their organisation (alienation); in becoming, people can find that domination and alienation distort their abilities to meet their fundamental needs for agency and self-determination, making them vulnerable to exploitation (capability deformation) (Yeoman 2016).

These dimensions of mutuality can be thought of as escalating modes of interaction. They represent competencies which enable organisations to use the Mutuality Principle to guide organisational design and strategic formation. Organisations are usually operating in at least one of these dimensions, and examples are widespread in the UK financial mutuals sector:

Figure 4: Examples of Turning Mutuality Dimensions into Action



4.3 Conditions for success

Increasingly, both private and public organisations are having to attend to multiple social, economic and environmental purposes, necessitating their involvement with stakeholders and interests beyond their traditional boundaries, and implicating them in networks and system complexity (Uhl-Bien & Marion 2009). This challenges conventional assumptions that interactions between organisations must be governed solely by competition. As interdependency increases, organisational boundaries become blurred, and leaders must draw upon externally located resources, as well as those internally available within their own organisations, and indeed must become involved in co-creating common resources which also bring benefit to other system or sector level actors. In particular, collaborating organisations must pay attention to institution building – that is, the creation of institutions which cut across traditional organisational boundaries. Institution building is an essential activity for system leaders, involving fostering commitment, intent, ethical orientation, purpose orientation, trust, boundary spanning, operational support and a long term perspective.

Examples of institutional mechanisms which contribute to collaborative system design include 'collaborative communities' (Heckscher & Adler 2006). These are high trust social arrangements which establish the 'mutual assurance' needed for actors to pool their needs and generate collective action. They arise 'when people work together to create shared value' (ibid: 20), and operate both within organisations and across systems, enabling people to develop shared purposes and secure mutually beneficial outcomes. Through shared purposes, values and identities, collaborative communities produce high trust networks. A particularly important social process in building collaborative communities is the joint construction, interpretation and incorporation of values. These are conversational processes which establish the belief systems necessary for binding together the often conflicting motivations and interests of diverse stakeholders. Mutuality as described above is a particularly rich resource of values which may be incorporated, through meaning-making conversations, into institutional mechanisms, such as collaborative communities.

4.4 Scenario one – independence

The *independence* scenario describes a condition of status quo. Partnering remains selective and tactical when the advantages of doing so are obvious to both parties. However, being effectively contractual in nature, these engagements limit the exchange of knowledge and expertise. Individual independence is preserved, but potential larger gains from partnering and collaboration remain unrealised. This static scenario may result in further consolidation, leading to increasing polarisation of the sector along commercial versus mutual ambitions. In the longer term this scenario would slowly erode the mutual basis – 'a comfortable decline'. The threat of future demutualisation would be detrimental for the rest of the sector, in particular if a large actor demutualises. Scenarios two and three provide opportunities for establishing a stronger mutual offering, making demutualisation a less desirable strategy with only short-term pay-offs.

The lack of a shared culture may further produce problems with regards to joint endeavours, including education and joint engagement with policy makers because small and large players may have increasingly different aims. Associations may lose their independent voice as powerful organisations may further increase their standing.

4.5 Scenario two – partnership: a case for 'mutual cross-selling'

The *partnership* scenario is a protective strategy with prospects for developing new joint capabilities and attractive offerings to members. The potential advantages of this scenario include:

1) Retaining the number of players in the sector by giving support to mutuals; for example shared back office functions could result in advantages of economies of scale shared between those engaged in sharing resources.
2) Innovating by sharing development costs and adjustments to legislation to be shared between a number of players.
3) Enabling organisations to strengthen the cultural bond of mutual self-help.
4) Reducing the threat of demutualisation of larger and smaller players, and/or the scaling down of operations of individual societies.
5) Strengthening the connections between insurers and building societies in the longer term.

The UK financial mutual sector currently contains two main types of organisations: mutual insurers and building societies. On first glance, both these markets appear to be separated by different product markets and different customers. Building societies are historically seen as key providers of mortgage, ISAs and savings products; whereas mutual insurers focus on the provision of life insurance, savings, healthcare and financial planning products (including investments and pension planning). Yet, as shown by Tischer (2013), building societies have diversified their product range substantially over the years and over half do offer insurance products and/or financial planning services.

Given this overlap of offerings between mutual insurers and building societies, it could be assumed that cross-selling would be well established. However, this is not the case. As shown in Figures 5 and 6, building societies, including their subsidiaries, are much more likely to sell products provided by non-mutual insurers than by their fellow mutuals. In particular three non-mutual providers stand out: Heath Lambert and RSA are key providers of home insurance products and Legal & General is the main provider in life insurance and financial planning.

Figure 5: Products provided by non-mutual providers

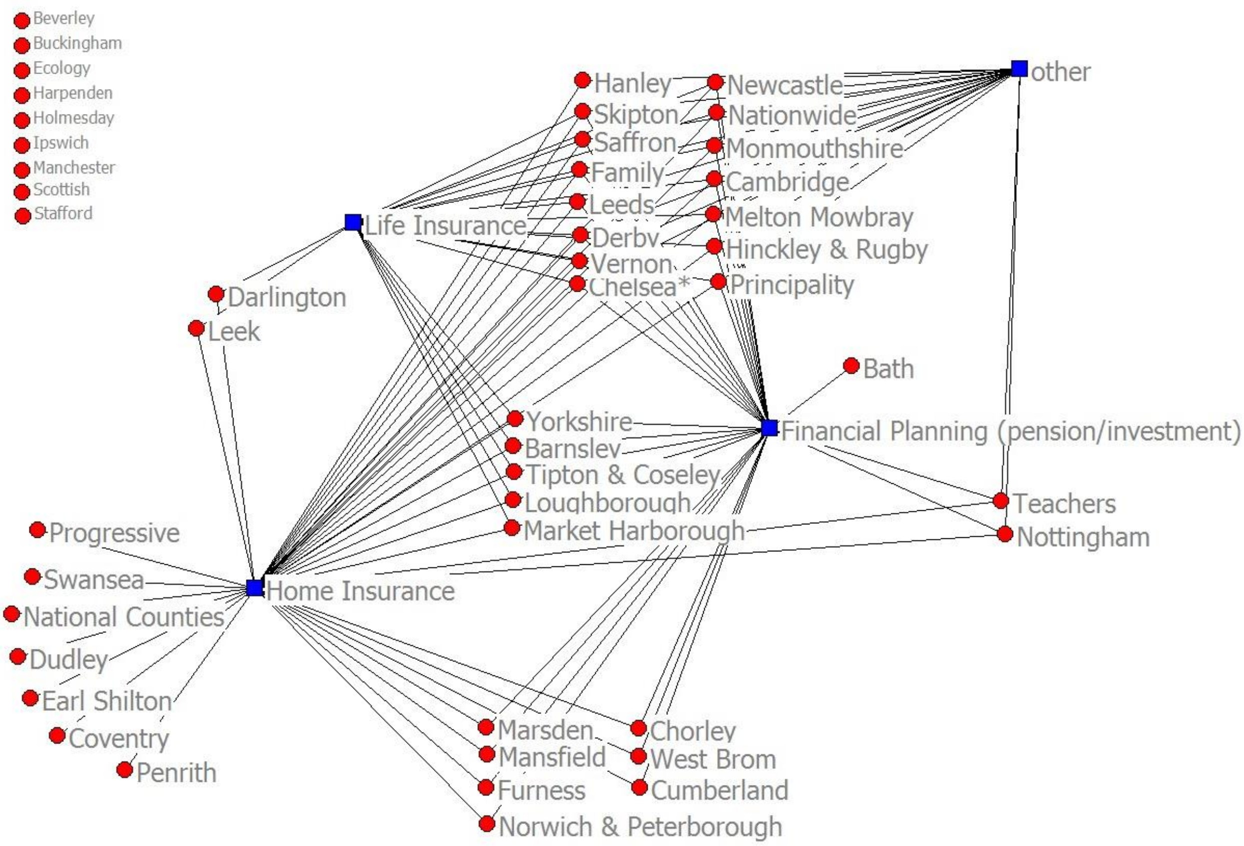
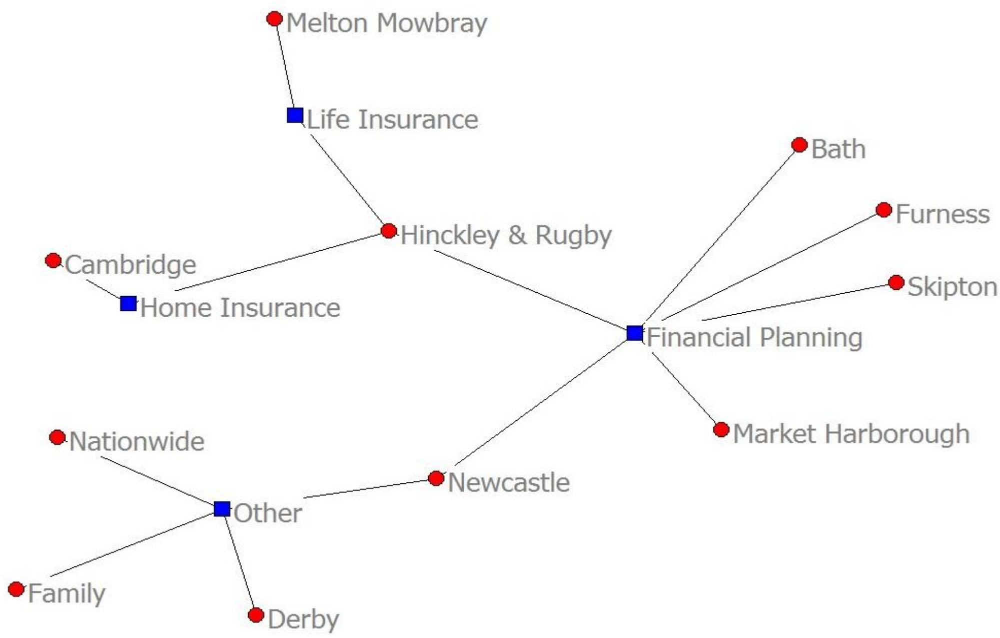


Figure 6: Products provided by other mutuals

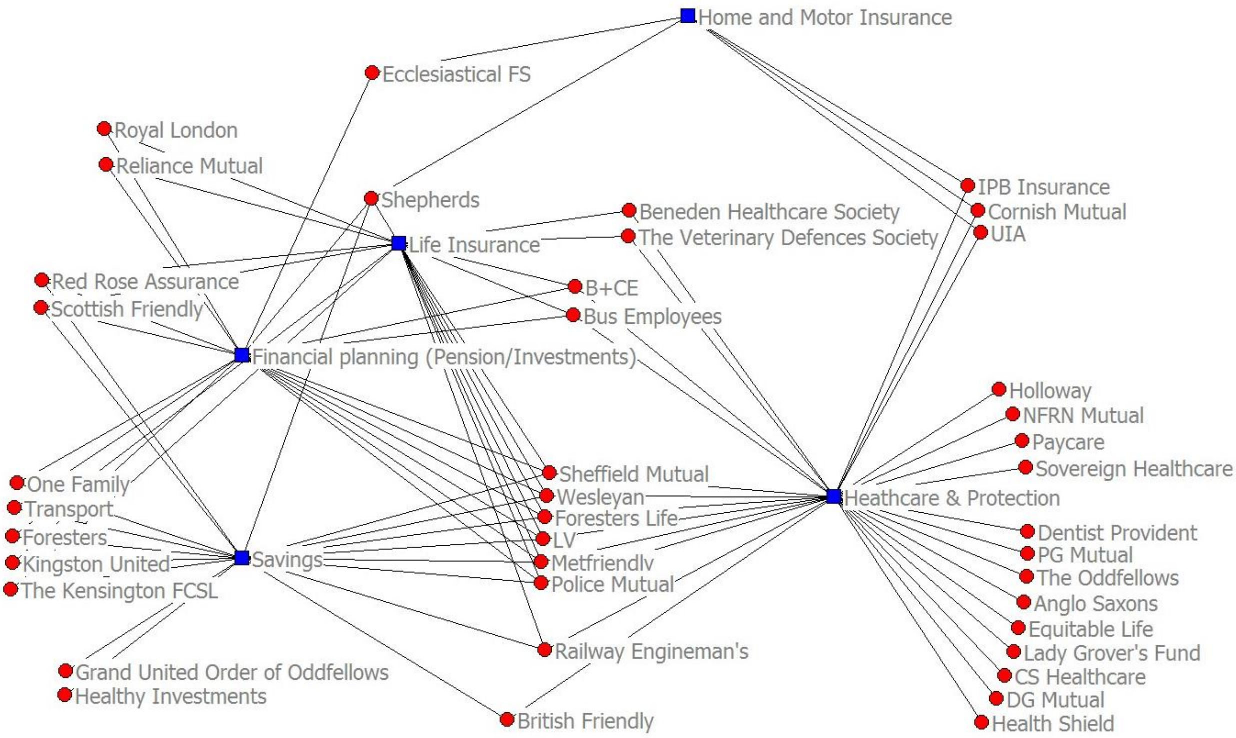


However, products provided by building societies from mutual insurers are rare. On the few occasions that 'other' products are provided by mutuals, they tend to include home insurance, life insurance or more specialist products. The car insurance provided by LV=

and offered by Nationwide is probably the most successful example of cross-selling between financial mutuals given the sizeable customer pool of Nationwide. In this case, and as mentioned above, LV= was able to tailor the product and distribution channels to suit Nationwide; however, without scale, the product would be more of a standard white-label product. Other products, for example one provided by Shepherds Friendly to cover the cost (or part) of university education avoid those scale requirements by occupying specialist but niche markets.

Yet, beyond the few financial products provided by mutuals, it is concerning that mutual insurance companies and friendly societies are not more prominent players in the UK insurance market generally. More importantly however, the lack of interconnected product-markets with building societies has a generally negative impact on the whole as opportunities to mutually benefit from the sale of insurance products through building societies and vice versa do not exist. Whilst it is clear that the products provided by mutuals may differ from those provided by the mainstream, it is nonetheless surprising to find L&G being the main provider of financial planning and life assurance products to building societies when other mutuals, including well-known Royal London and LV=, offer those products as well. (Figure 7).

Figure 7: Products and services offered by mutual insurers



How does this knowledge help us to reshape and invigorate the UK's mutuals, be it building societies or mutual insurers? Cross-selling between those groups springs to mind as an obvious strategy through which to strengthen mutual companies and to develop a 'true' mutual sector. Indeed, to speak of a mutual sector we would expect mutual insurers to feature much more prominently as partner organisations of building societies, yet clearly, their absence suggests that this is currently not the case.

Three key issues have been raised by interviewees with respect to why mutual providers are not more involved in supplying products. First, it is felt that mutual products do not necessarily bring additional advantages to building society customers just because they are created by another mutual. The fact that they are mutual is only of additional advantage if the product can match the product specifications of competing non-mutual companies, and if they can compete on price. Second, the type of mutual insurers' products currently offered may not match the requirements of building societies and vice versa; however, this should be a minor obstacle to initiating wide-spread collaboration between both types of mutual firms.

Indeed, this may present an opportunity to co-create products and services which are tailored to the needs of UK building societies, as they may expand the product offering of mutual insurers without impacting on its existing market. Moreover, building societies entertain a substantial branch network within the UK whilst most mutual insurers do not; therefore, selling mutual insurers' products and services through building society branches may create additional revenue for both organisations. A third issue may simply be the fact that neither mutual insurers nor building societies actively pursue more strategic engagement with one another. Indeed, mutual products have been shown to be of similar, if not better quality when compared to their demutualised (APG 2006: 33-35)[13] and non-mutual counterparts[14], so there is currency in promoting a change in the attitude of financial mutuals to get together and discuss potential for cooperation. Indeed the expansion of mutual insurance market share in the post-crisis period supports the idea of mutual products being a) competitively priced and b) offering superior quality[15].

It may be difficult to imagine the benefits of mutual cross-selling at the level of the individual organisation. The cooperation between LV and Nationwide could serve as an example; however, given that Nationwide holds more assets than the rest of the sector combined, the lack of scale achievable in collaboration between other societies may quickly render such a comparison impractical. Still, if a number of building societies were to group together to have a more strategic discussion with one or more mutual insurers, there is room for products to be tailored to the need of those building societies and sold through their branches providing the scale efficiencies required to make such a move financially sustainable for building societies and mutual insurers.

[13] Also, see http://www.financialmutuals.org/resources/mutually-yours-newsletter/mutuality-and-insurance
[14] http://www.moneywise.co.uk/pensions/annuities/the-best-pension-providers-2014
[15] Extended discussion available through: http://www.thenews.coop/39545/news/banking-and-insurance/mutual-insurers-emerge-economic-crisis-increase-market-share/

Potential benefits to mutual firms:

The major benefit for mutuals lies in the possible expansion of their market reach. Both building societies and mutual insurers could increase the number of policies sold to consumers, thereby increasing turnover and commission income generated. Likewise, building societies may naturally expand the range of savings products offered by mutual insurers. In either case, income generated could increase society income, for example through commission paid on non-life products and would provide momentum for growth for the sector.

The substitution of mainstream financial products with mutuals' ones may further help mutuals to compete by a) expanding their product base, and b) strengthening of the mutual sector as a whole by offering more products from other mutual providers.

Potential benefits to consumers:

An interconnected market for mutual products would also benefit customers seeking to avoid mainstream finance. Clearly, an exclusively mutual offering may be seen as attractive by those customers, although there will probably be few who would actively pursue only those products offered by mutuals. Alternatively, customers may also benefit financially from the expanded market reach which, on the one hand, could translate into increased profits and therefore higher dividend payments, or, on the other hand, better deals on interest rates which could attract additional new customers. The second option should be the preferred option to grow the market share of mutual finance in the UK (through multiple organisations, not one), to challenge non-mutual providers, and thus, to force mainstream providers to change behaviours and product quality.

"Ultimately what I think mutuals should be about is delivering good outcomes for their members and customers. That should be a yardstick by which any collaborative or indeed competitive exercise is embarked upon."

Gareth Evans – Royal London Group

Potential benefits to the sector:

Closer collaboration through, for example, cross-selling would be a major opportunity to develop a mutual sector. Currently, it could be argued that mutuality in the UK is fragmented and that a few firms dominate what should be a mutual sector. In addition, competition between mutuals further inhibits the development of a sector and instead cannibalisation of market share becomes an industry standard. The potential for this kind of collaboration can be seen in other national contexts as discussed.

Here, the French SGAM companies are a logical point of reference as they enable mutual companies to cooperate at a self-determined level, which may include, for example, the sharing of product platforms. Moreover, other cooperative banking systems, such as the Canadian Desjardin, the German BVR or the Finnish OP, feature subsidiaries that provide member banks with additional financial and insurance products. Doing so enables these sectors to provide tailored solutions which are modelled upon the cooperative/mutual values governing these sectors.

Given the prominence of integrating insurance and cooperative banking into one system, it makes sense that UK financial mutuals should at least consider this as an option. Yet doing so would clearly require additional commitments towards cooperation across the sector more generally.

"I think mutuality matters and this is why I think mutuality makes us a different kind of organisation."

Paul Ellis – CE of Ecology Building Society

4.6 Scenario three – collaboration

The *collaboration* scenario re-imagines the sector as a collective endeavour. Mutuals would openly share knowledge and coordinate activities so that individual organisations can share the benefits and no single organisation is disadvantaged. This scenario may be an attractive proposition for new mutuals to be established as they offer centralised support services to small, new players, thus overall revitalising the sector. However, for this scenario to be workable, UK mutuals need to re-evaluate how they engage with one another and need to change modes of leadership to appreciate, and work towards mutual goals that are effectively elevated from the goals of the individual organisation. The Finnish case outlined above serves as a showcase. The move towards centralisation was not jointly agreed at the beginning, mainly because of a similar cultural resistance and the feared lack of independence that constrains potential for action in the UK. One of the key aspects of this scenario is that the dominant organisations (in particular Nationwide and Royal London) would need to step back from their singular ambitions and accept the role of 'orchestrator' with, for example the BSA/AFM or a joint version of the two or indeed an independent third party, as relevant coordinating actors within this model. This does not mean that any mutual company would have to temper their individual aspirations, but it would mean that organisations should also consider the implications such actions may have on the financial mutual sector as a whole. Should some organisations not wish to participate in this scenario, there is no reason why collaboration cannot still succeed, even in the absence of the largest players. This is demonstrated by the case of Mutual Vision discussed earlier.

This scenario is not new for many other sectors. Applegate (2006: 355) argues "traditional industrial economy intra- and inter-firm hierarchies are becoming increasingly less effective in today's turbulent and increasingly networked world". Examining three cases, the Global Healthcare Exchange (GHX), the Covisint Exchange for Suppliers and Automakers and the NASDAQ internet trading platform, Applegate identifies the following necessary features for inter-firm collaboration:

Features of inter-firm collaboration (cf. Applegate 2006)

1. **Common platform and processes:** "A common platform and processes for managing interdependences" (Applegate 2006: 357) which includes task, information/expertise and affiliation/identity.

2. **Orchestrator or 'central coordinating role':** An Orchestrator or "central coordinating role that is designed to facilitate coordination and control, manage complexity, and improve network efficiency and effectiveness" (ibid).

3. **Networked and values-based governance:** "Hybrid forms of governance" which blend market, hierarchy and community such that "hierarchy and market reinforce and enable collaborative capability and trust, which, in turn, enables community to become the dominant governance model" (ibid).

From the healthcare sector, GHX is an illuminating case study of inter-firm collaboration. GHX was established in 2004 through the agreement and cooperation of seventeen major healthcare suppliers, distributors and providers in order to achieve the common goal of driving "over $11 billion in annual cost from the industry supply chain and providing common standards and a common operation platform upon which all can do business as they innovate to improve the health and productivity of society" (ibid: 356). The inter-organisational collaboration depended upon the systematic building of trust through representation/voice and fair sharing of benefits/burdens. The GHX ecosystem developed capabilities in the three dimensions of mutuality. In the bargaining phase, bringing industry interest groups around the negotiating table through merger negotiations of GHX with HealthNexis and MediBuy resulted in shared purpose, the development of industry standards and the creation of horizontal processes with information sharing. In the cooperating phase, the creation of horizontal processes resulted in operational efficiencies and new product development. In the flourishing phase, GHX became "the dominant internet-based global healthcare marketplace and the only industry supply-chain consortium with equity ownership by key participants, representing all major industry players" (ibid: 395). The GHX case generated a number of features which unite a philosophy of organising (based upon values and principles) with interlocking institutions, policies and practices.

Features of the GHX case

1. **A network orchestrator** which was owned by all members of the industry. This provided the basis for repeated transactions, knowledge/information sharing and market transparency needed to build process-based trust

2. **Shared values and identity creation** through months of negotiation, leading to a governance model based upon an LLC Agreement which would seek to "generate revenue and distribute excess profits back to its investing members and its customers through fee reductions" (Applegate 2006: 397).

3. **Linking investment and participation** through 'Membership Units' which "were used to determine voting rights, decision authority and distribution of profits and loss" (ibid: 398).

4. **Establishing 'Data Ownership Standards'** which clarified interdependencies and specified what data could and could not be shared.

5. **Determining 'Guiding Principles'** for setting strategic direction and decision-making.

6. **Fostering long term commitment through culture and affiliation.** The Guiding Principles and LLC Agreement enabled actors to "create a shared, interdependent identity and values that stressed an ethic of contribution and motivated and engaged active participation and affiliation over time" (ibid: 402).

Essentially, the GHX ecosystem established a form of 'mutualised governance' with the following features: reconfigured relationships, democratic conversation, improved information flows, adaptive and innovative capabilities, high levels of trust, accountability and legitimacy, outcome focussed. The core leadership discipline for 'mutualised governance' is the capability for the painstaking building and maintenance of trust. Applegate identifies three forms of trust – affiliation- and institution-based trust which support the process-based trust needed for the collaborative community which is the basis for the governance system sustaining the GHX ecosystem. Huff & Kelley (2003) show that inter-organisational trust depends upon equity and reciprocity, relational embeddedness (such as shared networks and reputational concerns), and capabilities in 'trust repair'. The positive outcomes of inter-organisational trust include knowledge transfer and inter-organisational learning, as well as firm competitiveness. This demands a different mode of leadership, one that depends upon skills in 'integrative leadership' (Crosby & Bryson 2010), and in building relational resources. In section 5, we discuss the features of 'mutual leadership' which would be needed to translate learning from the GHX case, and other cases, to the UK financial mutual sector.

> *So you see interestingly people like telcos collaborate. All the telcos actually share data between themselves in a shared service platform and they share data models. They share anonymised data, and they have all developed that platform because they want to see both sides of a core and they want to see the complete market.*
>
> David Rimmer, Hewlett Packard

4.7 Applying the dimensions of mutuality to inter-organisational collaboration

Relational value is a key resource for enacting the values and principles of mutuality in ecosystem and organisational design. Relational value is constituted by high levels of trust which arise when stakeholders judge procedures, interactions and outcomes to be fair. Successful interdependence – that is, interdependence which results in mutual gain – is grounded, therefore, in inter-organisational justice. On the importance of procedural justice to inter-firm cooperation, Luo (2008) says: "Alliances need procedural justice when formulating, governing, and managing inter-organisational entities because this justice serves as a foundation for inter-party cooperation, knowledge sharing, economic exchange, and ongoing commitment"(ibid:14). Applying the dimensions of mutuality, this includes:

Bargaining: As in the GHX case, procedural fairness is at the root of the commitments needed to secure stable and enduring governance: "procedural fairness nourishes a party's commitment to joint efforts, increases its belief in and acceptance of collective goals and values, and strengthens its loyalty to the organization" (Luo, 2008). Where the aim is to secure repeated transactions between trusting parties, rather than transient contracts, then the form of governance is vital for mediating the relationship between procedural justice and cooperative outcomes. If cooperative outcomes are desired then governance must have the form specified by the values and principles of mutuality, and foster identification and internalised values/shared goals. This establishes a system of 'mutual assurance' where each party can predict the behaviour of others and where each party believes they are protected from exploitation.

Cooperating: Positive fairness perceptions on the part of differently situated stakeholders are necessary for the high levels of trust which underpin collaborative community. In creating a culture of trust and cooperation, Luo (2008) identifies the importance of leadership by those who occupy boundary spanning roles: **"**A strategic alliance's senior management team, comprising key representatives from both parties, plays a key role in helping transform procedural justice to cooperation outcomes […]. As judges of justice, these representatives transform their perceptions of fairness into actions" (ibid: 30). Boundary spanners help to define cooperative outcomes such as financial returns, operational impact and relational value. In so doing, and under the influence of fairness norms, Luo (2008) suggests that "boundary spanners become more attached to each other, resulting in a stronger alliance management team" (ibid: 31). Indeed, they form a 'community of practice' around the shared purpose of the collaboration which transcends their individual organisational membership, and seek to act for the common good of the collaboration rather than for sectional interests.

Flourishing: Pursuing inter-organisational collaboration develops new capabilities and assets which can be put to use to meet the needs of various stakeholders. Luo (2008) suggests that**:** "Procedural justice also creates a flourishing and fruitful environment for developing relationship-specific assets, which may be in the form of personal skills, or organisational routines, assets, or technologies within an alliance' (ibid: 31). Financial performance is positively impacted by improved coordination, learning and routinisation, as a result of more effective team working and relational assets.

Successful inter-firm collaboration requires: • Commitment and intent • Ethical/values orientation • Shared purpose • Institution building using collaborative communities and values-based governance • Trust resulting from procedural and distributive fairness • Integrative leadership • Boundary spanning roles • Operational support • Long term horizon

4.8 Application to the UK financial mutuals sector

The requirements for successful inter-firm collaboration are observable in the Finnish case, as well as examples from other sectors, such as GHX. The key elements include:

- Articulating shared need;
- Surfacing values (respect, equality, dignity, fairness, care and mutual aid);
- Identifying the included stakeholders (and their inputs/outcomes;
- Co-creating the operating model, required capabilities and governance arrangements;
- Specifying outcomes and shared value.

Using the dimensions of mutuality, the UK financial mutuals sector possesses many features which would facilitate strategic inter-organisational collaboration consistent with scenario three. These include:

1. At the bargaining phase:

   Prior experience of experimenting with sector level collaborations. Applegate reports that the successful building of trust in the GHX example arose from the sector's experience with earlier alliances – "developing mutual understanding and trust was a long process, but eventually we were able to strike a deal that was beneficial to the industry" (ibid: 393). In the case of the UK financial mutuals industry historical examples which may be drawn upon include Mutual One etc.

2. At the cooperating phase:

    a. Shared values and principles grounded in mutual philosophy and mutual ownership;
    b. Examples of participatory cultures such as the Liverpool Victoria, as well as an emerging sector-wide leadership culture;
    c. Examples of innovations in operational practices.

3. At the flourishing phase:

   Mutual sectors that provide a collaborative environment for their members to co-exist and shape the sector are not utopian. Likewise their success is shared and can be seen across the sector and not just by the larger players. For example:

    a. Financial performance and market share has increased for integrated cooperative banking systems, for example, in Germany and Finland since the financial crisis;
    b. Organisational diversity is retained, or even strengthened in cooperative systems by removing barriers to access, in particular through sharing of IT and payment systems;
    c. Cooperative values are retained and developed through active and democratic engagement of member organisations in decision-making at the level of the sector and at the level of the individual through tailored education and training programmes;
    d. Sharing resources on mutual terms can, at the very, least generate cost-benefits without being detrimental to the individual organisations' independence as shown by the success of MVT and its customers.

5 Mutual Leadership for Inter-Firm Collaboration

5.1 Mutual leadership

Mutual organisations require an appropriate leadership model: behaviours consistent with mutual values and principles need to be combined with competence in creating and sustaining the policies, practices and procedures relevant to enacting the mutual organisation. Under scenario one, this means that organisation-based leadership of a mutual organisation is distinct from leadership of a conventional organisation, particularly in the demand upon leaders to exhibit mutual values and involve members. Under scenario two, and most especially under scenario three, mutual leadership becomes more demanding, as leadership must extend beyond the boundaries of the single organisation to encompass dyadic or collective partnerships, and even system-wide collaborations.
This requires attention to the content, mode and basis of leadership:

> *Content of leadership*: With respect to the content of leadership, responsible leadership provides the behaviours and orientations that he or she who leads is expected to model. Furthermore, in a mutual organisation where organisational practices are designed to integrate multiple stakeholders and conciliate diverse perspectives, leaders need to exercise wisdom and judgement, in addition to possessing the relevant skills and competences. Mutual leadership is fundamentally values-based leadership where co-ownership renders a leader permanently available to be held to account by members. Leaders must become receptive and able to process a wide range of views and expressions. To make differences productive (Yeoman 2016), leaders need the ability to listen with respect and to communicate with clarity and honesty, especially where difficult decisions have to be made. This requirement creates a certain kind of leadership vulnerability to which the mutual organisation must respond by providing support and resources.

> *Mode of leadership*: Mutuality implies a mode of leadership based upon shared or distributed leadership (Fitzsimons et al 2011) rather than the singular, heroic leader (Pearce and Conger 2003). The exercise of voice requires leadership capabilities to be widely disseminated through the organisation with the result that leaders emerge and are appointed not just according to formal status but also according to the needs of the situation. In their study of OP-Pohjola Group, a Finnish financial group containing 198 local member co-operative banks, Saila et al (2012) identified the following characteristics by which shared leadership could be noted: recognised in the quality of interactions; evaluated by how well the problem was solved together; enacted in how all individuals contributed to the process of leadership; understood as a joint effort of interdependent individuals, including high levels of communication; and aimed at mutual benefit and the common good.

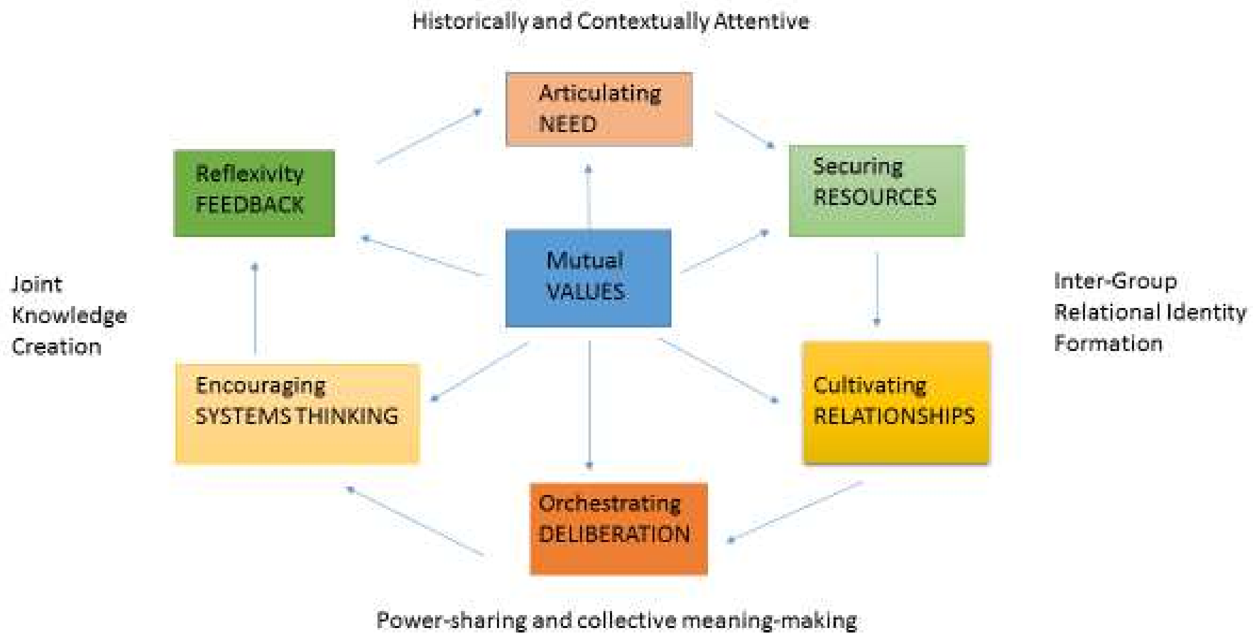
Basis of leadership: In a mutual organisation, the basis of leadership is a deliberated authority (Alvesson and Spicer, 2012), where coordinative power is legitimated through democratic representation. This may mean that there is extensive employee, and even member, involvement in organisational leadership (EIOL) where there is a "division of leadership tasks between different people at several levels of the organisation" as a high performance work practice (Wegge et al 2010: 154).

5.2 Mutual leadership under scenario three

Models appropriate to organisation-level leadership abound. However, there is less appreciation of what is needed for 'system leadership', as well as what developmental processes will produce the relevant leadership skills and attributes. In particular, although it is understood that values are vital to successful inter-organisational collaboration, there is little specification of the content of these values, and the activities, processes and practices by which they may produce desired system outcomes, such as shared value creation. Nevertheless, the trend towards increasing system complexity is gathering pace, leading to experiments in 'shared', 'distributed', 'integrative' or 'relational' leadership. In such a context, a sector such as the financial mutuals industry (building societies and mutual insurers) with a historical grounding in mutual values is at an advantage. This is because the philosophy of mutuality supplies content, validity and legitimacy to the values needed for successful and enduring inter-organisational collaboration. Specifically, mutuality provides the legitimating basis for leadership which is relational, integrative and distributed, orientating leaders to the core values which must guide system design and governance.

Crosby & Bryson describe 'integrative leadership' as "bringing together diverse groups and organizations in semi-permanent ways – and typically across sector boundaries – to remedy complex public problems and achieve the common good" (Crosby & Bryson 2010: 211). Integrative leadership is a 'shared activity, with shared responsibilities' (Alban-Metcalfe & Alimo-Metcalfe 2010: 4). This mode of leadership is therefore distinct from conventional models of individualistic, organisation-based leadership: "the majority of leadership theories rest on hierarchical assumptions and a leader-follower dynamic that breaks down in the collaborative context" (Morse 2010: 233). 'Mutual Leadership' requires leaders to not only 'act competently, in an engaging way', but also to acquire orientations, behaviours, skills and attributes which point system actors to their shared interests, and the collective good. Indeed, one of the most important responsibilities of leadership for inter-organisational collaboration is to foster collective learning (Edwards 2012). Values play a key organising role in the function of leadership. Failures in whole system change arise when there are "conflicts in stakeholders' values and what each stood to gain or lose" (Greenlagh et al 2012). Therefore, mutual leaders play a vital role in securing settlements over the distribution of gains/losses; benefits/burdens; risks/opportunities between the different stakeholders – settlements which may be reached through a translation of the mutual values into activities, outcomes and shared value creation.

In essence, under scenario three, mutual leaders of inter-organisational collaborations will be grappling with Complex Adaptive Systems which are "neural-like networks of interacting, interdependent agents who are bonded in a collective dynamic by common need" (Uhl-Bien & Marion 2009: 631). We argue that Complex Adaptive Systems, whether operating under mutual ownership or otherwise, require leaders to exhibit attributes, behaviours and skills which are consistent with mutuality. With this in mind, we propose the following Mutual Leadership Model for inter-organisational collaborations:
Figure 8: Mutual Leadership for inter-organisational collaboration



Source: Yeoman & Campbell-Pickford, 2016

Leaders of CADs must facilitate an interaction between the administrative (formal) and adaptive (informal) dimensions of the system (Uhl-Bien & Marion 2009). In particular, leaders must be skilled in managing 'dynamic interaction' which consists of: collective creativity and reflexivity, interdependence based upon shared need rather than shared goals, and the 'adaptive tensions' which arise from heterogeneity, or the differences stimulated by including multiple stakeholders and diverse perspectives. An important feature that leaders must grapple with is *articulating shared need*. CADs are characterised by plurality – organisations and individuals come with their different, and competing, values, interests and needs. Conventional models of leadership aim to summon up a shared vision into which differences are dissolved, or at least silenced. Successful leaders of CADs, however, call upon 'shared need' as the urgent uniting motive, compelling diverse actors to recognise their unavoidable interdependences, and to work together for the common good (ibid).

> "If interdependence is not felt, complex adaptive behavior will likely not occur because individuals will not be motivated to engage. This is not trivial and may explain why so many change efforts or efforts at coordinating multi-team systems (Mathieu, Marks, & Zaccaro 2001) report problems of energizing participants around the core mission/vision: they don't feel connected to (i.e., interdependent with) that vision or they don't really share the goal. In nature, agents that are not interdependent would not belong to the system. However in social systems, organizing frameworks often create 'artificial' interdependencies in that individuals are placed in systems to which they may feel little personal attachment to (interdependence) or engagement with the system goal.' (ibid)

Where independences are 'felt', then the Mutuality Principle supplies the basis for solidarity or "bonding" (Uhl-Bien & Marion 2009). The values and principles of mutuality cohere and organise the aspects of leadership in interorganisational collaboration. In particular, where individuals, teams and organisations must work together, effective outcomes are secured in relationships which are "based on trust of, and mutual respect for, each of the participants, and valuing of others' contributions" (Alban-Metcalfe & Alimo-Metcalfe, 2010: 10). High levels of trust depend upon perceptions of fairness, and fairness is a core ethical principle associated with mutuality. Respect is a feature of mutual relations. Leaders must therefore 'cultivate' relationships with mutual characteristics. With these relationships as a foundation, they 'orchestrate' conversations which include multiple voices and perspectives, opening up negotiations over meanings and encouraging the boundary crossing which promotes collective learning (Akkerman & Bakker 2011). In such an arrangement, leaders convene, resource, involve, stimulate and crystallise "collaborative processes where stakeholders jointly take decisions" (Vermeesch et al 2013). In a study of integration and coordination in an aerospace supply chain, Rose-Anderssen et al (2010) identify the importance of "the integration and coordination processes of risk-sharing partnerships" where "mutual expectations and co-control are the aim of risk-sharing partnerships" (ibid: 194).

> "critical in building trust, making sense of complex situations, managing conflict, linking actors, initiating partnerships among groups, gathering and generating knowledge, mobilizing broad support for change, integrating social and ecological understanding, and developing and communicating visions for change"
>
> Emerson & Gertak, 2014: 771.

In an empirical study of the skill set needed by successful collaborators in public administration, individual attributes and interpersonal skills were mentioned more frequently by interviewees than strategic or technical skills. These included "good communication, listening, and the ability to work with people" (O'Leary et al 2012). The 'boundary spanner' or 'integrative leader' must be an expert in human relationships, and cultivate extensive trust building practices, thereby establishing the "platform for deliberation and collaboration between diverse stakeholders" (Hamman & April 2013), constituted by procedures which exhibit 'inclusion, fairness and effective deliberation between diverse interests' (ibid: 13). In a study of the necessary capabilities of collaborative intermediary organisations in urban sustainability projects, Hamman & Kurt (2013) identify the following individual leadership capabilities: systems thinking, values-based leadership, collateral leadership, power-sharing and process-based leadership.

> "In the partnership context, how a leader pursues a goal is frequently as important as the goal itself. Because a partnership leader cannot rely on the formal structure and authority that facilitate action in other organizations, he or she depends heavily on interpersonal skills, which encourage input and participation, and on effective communication mechanisms, which assure wide and multidirectional diffusion of information"
>
> Crosby & Bryson 2010: 169

Constructive engagement amongst participants in a system of collaborative governance will be characterised by:

- Fair and civil discourse;
- Open and inclusive conversation;
- Representation of diverse interests;
- Informed by perspectives and knowledge of all participants.

Collaborative leaders will:

- Cultivate inclusivity;
- Instil confidence and commitment;
- Demonstrate political and moral authority;
- Think strategically;
- Build relationships and trust (Emerson & Gerlak 2014).

An important outcome of mutual leadership is the construction of an 'intergroup relational identity' (Hogg et al 2012), where a group's relationships with other groups becomes part of that group's identity. This is distinct from a 'collective identity' which assumes 'similarity and oneness' (ibid.). Rather, the plurality of interests in inter-organisational collaborations requires 'a climate of mutual trust, respect and liking' (ibid), where even though common ground is jointly identified and maintained, differences are acknowledged and drawn upon as an innovative resource. As we have argued, the UK financial mutuals sector already enjoys the basis for such a shared identity through the values and principles of mutuality. Through the emphasis upon mutual relationships, the conditions for an inter-organisational relational identity exist. This is promising for promoting trust, and supporting reflexivity through feedback, where relational quality will be a key assessment criteria of effective inter-organisational collaboration. Involvement, participation and voice are characteristic of relationships most likely to deliver a positive return (Grönroos & Helle 2012), such that: "inter-organisational collaboration aiming at jointly creating incremental value and returns on joint investments in a relationship may be a source of competitive advantage" (ibid).

6 Conclusion: Orchestrating the Strategic Conversation

The UK financial mutuals sector has the capacity to not merely survive, but to grow. Innovations of immediate interest arising from this research include:

- Cross-selling;
- Non-commercially sensitive services such as centralisation of IT;
- Leadership development linked to sector-wide strategy formation.

Strategic ambition aimed at securing collective benefits will require the sector to leverage its mutual assets of values, practices and reputation. The keys to unlocking this potentiality are collective learning, shared knowledge building and cross-sector innovation. This will require the sector to design and institute new ways of working, as yet unknown – although the international cases may provide inspiration, and the three scenarios of independence, partnership and collaboration may suggest strategic possibilities. Given that innovation will be required, we outline below the features of a strategic conversation which will involve a wide range of stakeholders in building sector-wide capabilities in leadership, and new operating models. These capabilities will equip mutuals (building societies and mutual insurers) to generate strategic initiatives and experiments. The goal is a mutual sector with a greater sense of shared destiny, and a renewed commitment to the vital contribution mutuality has to play in maintaining a diverse financial services sector whose mission is to benefit consumers and society at large.

6.1 Orchestrating the strategic conversation:

Interviewees described how sector-level collaboration has been the subject of periodic discussion amongst financial mutuals in the United Kingdom. However, though many chief executives and other senior managers acknowledged the potential benefits of cooperation, this has not so far led to any significant collaboration within the mutual sector. Based upon the semi-structured interviews, we identified two common viewpoints on the subject of cross-sector collaboration. In the first perspective, interviewees expressed the belief that there are many opportunities for partnership in the sector. The alternative perspective accepts there may be potential benefits from collaboration, but remains sceptical about the prospects for significant levels of collaboration due to the practical issues of aligning competing organisational interests, and the limited success of previous experiments. In academic terms, this lack of collaboration might be regarded as a collective action problem – a situation in which multiple individuals or organisations could benefit from a certain action which no one individual or organisation is willing to undertake on its own. Therefore, we propose the architecture for a sector-wide, multi-level strategic conversation, incorporating diverse stakeholder perspectives, organised around an articulation of shared purpose and grounded in collaborative research methodologies, specifically, activity theory and Change Laboratories.

Architecture for a strategic conversation

1. Deploying the dual movement of a **‘bottom up/top down’ proces**s.

2. Using **the values and principles of mutuality as an ethical language** and rhetorical device for promoting and ordering the conversation.

3. Using **techniques of collaborative learning** for building collaborative community (for, example, action learning).

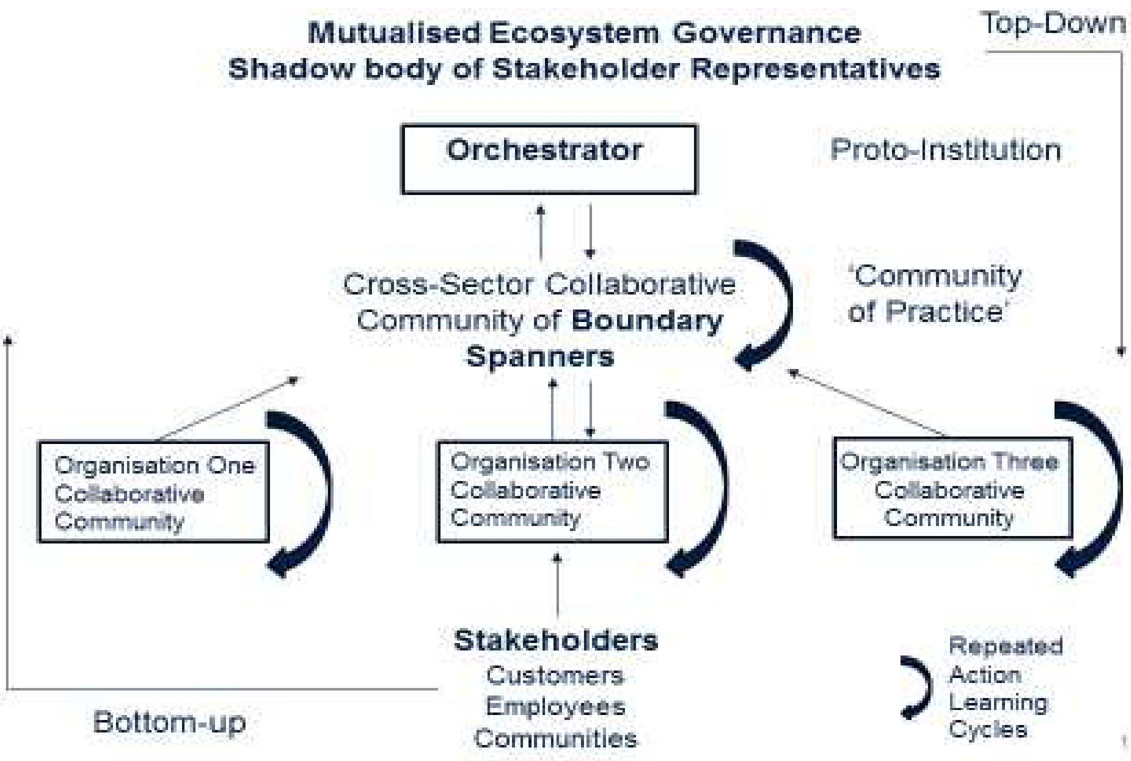
4. **Producing relational value and high trust** from an **articulation of felt need**, leading to a shared sense of purpose, values and identification.

5. **Encouraging the proto-institutions of an emergent mutual sector in financial services**. These will include:

    a. Creating boundary spanning roles
    b. Establishing a model of mutual leadership
    c. Generating distinct operational practices, culture and values which support inter-firm collaboration
    d. Specifying cooperative outcomes.

The proposed conversational architecture makes use of collaborative learning techniques, in this case, Change Laboratories grounded in activity theory. Sigismund Huff et al (2010) describe how strategies and processes developed by inter-connected organisations are mediated by local organisational culture, as well as shaped by local strategies, processes and activities. In other words, the local level is deeply implicated in the system level. The proposed architecture requires a cohort of organisations to undertake ‘within firm’ as well as ‘inter-firm’ learning cycles to expand understanding and knowledge at the local, as well as the systemic level. The proposed strategic conversation involves actors in systems thinking by connecting organisational-level (within firm) activities to sector-level activities (inter-firm), whist simultaneously a system orchestrator holds the process on behalf of the sector. The shadow body of stakeholder representatives will provide oversight and critical reflection.

Figure 9: Architecture for inter-firm strategic conversation



I think there is a collective action problem… I have seen it in discussions with other organisations, that there is an unwillingness to give up some of the value that they currently retain, even where I think it could actually deliver more efficiency.

Gareth Evans - Royal London Group

6.2 Change Laboratories

There is no shopping list of innovations which the UK financial mutuals sector can access 'off the shelf' to create a mutual sector. Rather, novel systemic arrangements must be generated by sector stakeholders through the production of innovations and experimentations, resulting in new common knowledge (Edwards 2012; 2011), practices and associated institutions. Change Laboratories are a proven social science intervention methodology which co-produces new or changed activities which are sustainable, measurable and legitimate. The background of the Change Laboratory method (Engeström et al. 1996) is activity theory (Engeström 2014). An activity system is made up of a number of interacting components and when a system is subject to new demands, this has potential implications for different parts of the system. It may mean the work that people are focusing on shifts (i.e. from 'profit' to 'fair return', or social and environmental, as well as financial value) with implications for who is involved within the organisation and beyond (the communities involved). The strength of the theory and the Change Laboratory method derived from it, is that it provides a framework to guide, develop and understand change in activities when a system is in flux. Change Laboratories have been applied in a wide variety of contexts, from manufacturing and banking to public services and sustainable farming (Virkkunen &Newnham 2013).

The Change Laboratory method has a number of inter-linked steps, which harness the cognitive and emotional engagement of stakeholders in developing new practices. Change Laboratories include the collective examination of preliminary data gathered by researchers ('mirror data'), exposure to double stimulation (where tensions and contradictions in the current and intended activities are revealed and worked upon), analysis of the activity system and identification of the 'zone of proximal development' for the purpose of altering personal and collective motives (Engeström et al 1996) in the direction of desired change.

Practices – the established ways in which work gets done – are reconfigured through a highly interactive process of co-inquiry and co-design involving multiple stakeholder perspectives, and grounded in local contexts and cultures. This works through the formation of new concepts, which in turn generate the common knowledge needed for innovations in management practices. Change Laboratories produce very rich and varied data which can be used by stakeholders to create an evaluative framework of metrics for mutual sector performance.

In sum, this intervention methodology produces, through a process of expansive learning, deep changes in ways of working. As part of a sector-wide strategic conversation, operating through learning cycles at multiple levels, Change Laboratories are an effective tool for collaborative action and innovation. Empirical research will track developments as they emerge, including examining the effectiveness of change and the impact upon employees, members and other relevant stakeholders.

Example process steps

1. **Who will participate:** Identify the cohort of organisations which will co-create the new eco-system.

2. **What will they do?** Set up Change Labs (the basis for 'collaborative community') in each organisation (bottom-up).

3. **Getting into the action:** Set up an action learning group of shadow governing body of stakeholder representatives and senior leaders (top-down).

4. **First Learning Cycle:** Each Change Lab will select a question to work on.

5. **First inter-firm workshop:** Gathering of all Change Labs. Groups will determine their next question or refinement of their first question (may vary according to individual organisations but will also include emerging collective goals). A key output will be the foundation of a cross-sector action learning group of boundary spanners.

6. **Second learning cycle:** Involving all organisations, shadow governing body, boundary spanners.

7. **Second inter-firm workshop:** Gathering of all Change Labs. A key output will be the creation of a new proto-institution which will become the Orchestrator for the ecosystem.

8. **Third learning cycle:** Concentrate upon the bargaining phase including constitutions, agreements and rules.

9. **Third inter-firm workshop:** Constitutional settlement.

Appendix I – Analysis of Interviews

Reflecting upon the 2008 financial crisis

Participants were asked to describe, based upon their own experiences, how the financial crisis had impacted their individual organisations, the financial mutual sector more generally, and the financial services industry as a whole.

- *Participants reflected that while the financial services industry as a whole went through a turbulent period and the financial mutual sector more specifically had a number of casualties, those interviewed stated that their individual organisations had weathered the financial crisis relatively well.*
- *The most direct impact described in the interviews by Chief Executives and other senior managers of financial mutuals was a notable increase in regulatory and capital requirements.*
- *There is general acceptance amongst those responsible for the governance of financial mutuals, particularly building societies, that many within their sector were drawn into mirroring the business practices of the large banks in the years prior to the financial crisis. Many reflected that in this period adopting the same practices was seen as a necessity to remain competitive, but with the benefit of hindsight some of the business strategies chosen were not necessarily in the best interest of their members, which ultimately led to examples of aggressive expansion, high-risk lending and some involvement in the PPI scandal.*
- *As a result, a number of Chief Executives and senior managers recognise that there is need to develop a defined role for the financial mutual sector, which is distinct and recognisable to the consumer.*
- *There is widespread acceptance from all those interviewed that the financial services industry very much needs to rebuild trust with the consumer.*
- *There was a widespread consensus amongst those interviewed that the financial mutual sector is not yet doing enough to take advantage of the anti-banker/anti-fat-cat sentiment which currently exists within many sections of society.*
- *Developing from this, many believe that being a mutual has the potential to be very marketable, with a growing base of socially aware consumers, but the challenge faced is that many people today simply do not understand what a financial mutual is and how its model of ownership differs from the large banks.*

Sector level collaboration

Sector level collaboration was a key area of discussion in all the interviews, where participants were asked to offer their opinions on whether they personally believed there existed opportunities for collaboration at a sector level, and if so, where specifically these opportunities lie. Interviewees were also asked to offer their explanation on why collaboration within the sector has not happened to date and what might be done to bring about sector-level collaboration in the future.

- *It was clear from the interviews that the subject of sector level collaboration was not a new idea, that it has been discussed in numerous consultancy reports and that it often appears on the agenda of regional and national industry meetings amongst financial mutuals.*

- *All those interviewed accepted that the benefits to sector level collaboration were apparent, with many citing a range of opportunities for collaboration, such as sharing of back office services, cross selling of products, sharing of data, developing new products, sharing capital and developing joint IT platforms. Many of those interviewed cited the success of sector level collaboration in the financial mutual sector in various countries elsewhere in Europe.*

- *While there exists widespread consensus on the benefits of collaboration, many of those interviewed were also sceptical about whether there will ever be any significant level of collaboration given that the idea has been around for a long time and little action has availed.*

- *Many were aware of unsuccessful past attempts at sector level collaboration, with a number citing the case of Mutual One.*

- *A number of smaller building societies and financial mutuals question whether their smaller scale limits them from benefiting from collaboration. The argument which was put forward was that managing collaboration itself requires resources, which might be the same or greater than the cost of doing the same operations internally.*

- *Many of those interviewed believed that a key preventative factor is that senior management teams do not want to give up control and independence over their organisations, with many reflecting that it seems not to be in the culture.*

- *There are some fears that collaboration will lead to further consolidation within the sector, on the premise that once back office and various systems are aligned, the next logical progression will be to consolidate further to achieve even greater economies of scale.*

- *Likewise many describe a collective action problem, in which each organisation is interested individually but no one organisation is willing to take the lead.*

- *Many of those interviewed believed that the best solution would be the involvement of a third party organisation to take the lead.*

Technological changes

Interviewees were asked to reflect upon how technology has altered consumer habits in recent years. An area of questioning was put forward around whether this could lead to a possible disconnect between a financial mutual and its members, and if so, what might be done to resolve this issue.

- *Many of those interviewed predicted that the likes of Apple and Google will increase their involvement in the financial services industry within the near future, and given their vast resources and influence, these organisations have the ability to enter and fundamentally transform the market, and are therefore a potential threat to the financial mutual sector.*

- *Those interviewed recognised that in recent years there has been an accelerated trend away from branches as the primary source of contact, and that traditionally branches have* *played a central role in developing a customer and local community connection. As a result, many cited John Lewis, and how it has managed to maintain a loyal customer base while developing a bricks and clicks business model, successfully merging their e-commerce with a high street presence.*

- *The cost of research and development on technology was often cited as an apparent area for sector level collaboration, given that financial mutuals will in many cases be replicating the development of the same services when it comes to websites and mobile applications.*

Social demographic changes

We are living longer and with recent changes to pensions, people in society are becoming increasingly more responsible for their own financial future and wellbeing. As a result, there is growing concern around whether people are planning and saving enough for retirement; as a result those interviewed were asked what role, if any, financial mutuals could play in supporting society.

- *There was widespread consensus that building societies and mutual insurers could play a more prominent role in supporting their members, given that they offer a range of saving products and that mortgages are a form of asset accumulation.*
- *While many accepted that the sector was well placed to help people plan for the future, many of those interviewed were also very cautious about offering financial advice, highlighting that it can lead to conflicts of interest and turn into litigation if investments later turn bad.*
- *A small number of those interviewed described that their organisations were already involved in offering financial education to their customers/members.*
- *There was some discussion surrounding the use of behavioural economics and whether there might be an opportunity to use 'behavioural nudges' to help support members in meeting their personal financial objective.*

Predicting the future shape of the sector

Both building societies and mutual insurers have seen their numbers gradually decline and their individual sectors become increasingly more concentrated in recent years.

- *Anticipating further consolidation within the sector, there was complete consensus amongst those interviewed that there will be fewer financial mutuals in the future than there are today.*
- *With regards to those interviewed within the building society sector, the vast majority predicted fewer than thirty societies in the next twenty years.*
- *There is widely spread consensus amongst those interviewed that without fundamental changes to current legislation and regulations, particularly surrounding how financial mutuals raise capital, then there is unlikely to be the emergence of any new building societies or mutual insurers in the foreseeable future.*

Defining mutuality

While the term mutuality is widely used within the sector, there is no generally accepted definition of the term, therefore interviewees were asked to articulate what mutuality meant to them.

- *A wide range of definitions were offered.The key recurring themes surrounded: trust, fairness, respect, a customer/member centric approach to business, responsibility, prudence, integrity, honesty, transparency and accountability.*
- *It was clear from the interviews that the meanings and practices of mutuality, and how these apply to financial mutuals, is the subject of ongoing inquiry and debate in the financial mutuals sector.*
- *Mutuality is understood to apply at the organisational level in leadership, culture, governance and membership. At a sector level, the potential for inter-organisational collaboration has been periodically considered by the member organisations, but has not led to any significant changes in operational practices.*
- *Sector participants and observers comment upon the need to communicate to members and the wider public about the difference mutuality makes to individual organisations and to the sector more broadly.*

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