The impact of the cooperative structure on organizational social capital

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Abstract

Purpose – Most research into the relationship between social capital and cooperatives takes social capital as the independent variable and the cooperative as the dependent variable, but as yet the authors know little about causality in the other direction. The purpose of this paper is to examine whether the cooperative structure helps to maintain organizational social capital.

Design/methodology/approach – Semi-structured interviews were conducted with 46 participants from local banks (chairpersons, directors, managers, team leaders and human resources managers).

Findings – Although the cooperative structure formally remained in place, integration into financial markets and digitalization effectively disembedded the organization from its original social context. The cooperative model can only remain distinctive, in terms of how it relates to its clients, under certain institutional conditions.

Practical implications – The findings suggest that scaling, in response to changes in the institutional environment, was an important factor in changing the nature of the organization.

Originality/value – The paper contributes to the understanding of the social dynamics of cooperatives in the field of financial services.

Keywords Economic sociology, Cooperatives, Social capital, Social enterprise, Financial services

Paper type Research paper

Introduction

The global economic and financial crisis of 2007/2008 brought about a renewed interest in alternative types of economic organizing [1]. Mair and Rathert (2019) have noted that alternative types of organizing economic activities, for a social purpose, have the following characteristics: they pursue multiple economic and social goals; they attend to local needs; they marshal underused resources or make do with limited resources; and they experiment with democratic decision-making. These characteristics certainly fit the original cooperative model, which in its modern form emerged in Europe in the nineteenth century as a response to financial and social exclusion. Although in mainstream economics cooperatives were long regarded as an archaic type of organization, they are now being rediscovered as possible alternatives to currently dominant models of the corporation (Monteagudo and Buendía-Martínez, 2020). However, critics have noted that systematic evidence on the prolonged benefits of alternatives types of economic organization is still lacking (for instance, for a

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critique of social enterprises, see Spicer *et al.*, 2019). In the case of cooperatives, scholarship has focused predominantly on their genesis and their benefits to the status quo at the time of origin. However, we know far less about how such organizations develop in the longer term and whether their presumed distinctiveness holds up over time.

Previous scholarship has shown how social capital was the foundation for the formation of community-based organizations, including cooperatives (Valentinov, 2004). Social capital can be defined as the collective value of all "social networks" and the inclinations that arise from these networks to do things for each other (Putnam, 2000, p. 19). It is associated with the cooperative form and its various elements; trust, reciprocity and long-term relationships. By using the cooperative structure, social capital can be "paid out" through collective action. What is less clear is whether and under what conditions it works the other way round: what is the effect of cooperative structures on social capital within and around the organization? If social embeddedness is essential to how they function, then a sustainable organizational model would be expected to be able to sustain it. However, can it? This article will focus on how banking cooperatives manage to produce and maintain organizational social capital. Organizational social capital – the specific subject of the study – is defined as social networks within an organization based on reciprocity, trust and reputation. The findings are based on a unique study of a large cooperative banking group, in which this relationship between the cooperative structure and organizational social capital is tested.

The evidence shows how a seemingly stable cooperative structure hid the fact that the bank had gradually moved into a new organizational field, away from its social origins, to a large extent adopting the practices and norms of its new peers, which were large commercial banks. The loss of social capital was a side effect of this, which the cooperative structure did nothing to prevent. In effect, while social capital can foster the emergence of cooperatives, the reverse does not appear to be the case here. Scaling and integration with larger financial markets have weakened relationships with members and declined member ratios, a process speeded up by the digitization of financial services. What the analysis will show is that the cooperative structure is, at least in the field of financial services, ultimately no safeguard against the erosion of organizational social capital. By implication, the fact that a bank is formally a cooperative means fairly little, without in-depth knowledge of how it actually operates.

The article starts by explaining the theoretical background to the analysis; firstly, by theoretically linking cooperative structures to collective action problems and social capital; secondly, by breaking down the general concept of social capital into three more specific dimensions. We will then go on to explain how these three dimensions were studied in the context of cooperative banks. These were examined through a comprehensive survey and interviews among employees, desk research and secondary data. On the basis of the evidence, we will reflect on the relationship between cooperatives in the field of financial services and organizational social capital.

Theoretical approach

Theoretically, cooperatives can be regarded as an answer to collective action problems. Cooperatives can only tackle dilemmas of collective action when sufficient organizational social capital is present. As such, social capital can be regarded as the "fuel" of the cooperative. There is no definitive, categorical and fixed definition of social capital. Instead, the specific definition of a study always depends on the discipline, unit and level of research (Robison *et al.*, 2002). For instance, while Bourdieu (1986) focuses on power relations, concrete network links, logical strategies and individual benefits, Coleman (1990) on socialism, families, rational participants' strategies and social benefits, Putnam and Leonardi (1993) on civil traditions, political systems and social benefits (we are aware that this is necessarily a short and rough characterization of their work). Our approach here builds primarily on Putnam's approach, which emphasizes the shared, informal norms and values of members of a specific group, which enable collaboration between them. His argument is that social capital is a collective resource, not an individual one, in contrast to the work of Granovetter (1973) and Coleman (1990), whose conceptualization starts with interpersonal connections to identify collective benefits by looking at both the individual and group levels. The central premise of the social capital theory is that social networks have and generate social value, where social capital is both an asset and a resource. The organizations that people work for and communities in which they live are social networks.

This study focuses specifically on organizational social capital, which is defined as: social networks within an organization that are based on reciprocity, trust and reputation. This definition corresponds with the description of social capital by Putnam: *social networks among individuals and the norms of reciprocity and trustworthiness that arise from them* (2000, p. 19).

Cooperatives, as we know them today, emerged in nineteenth-century Europe, where many population groups and communities were facing financial exclusion. They allowed groups of citizens a way to organize themselves to countervail the problem of financial exclusion and exploitation. This financial exclusion can be seen as an event, namely, a collective disadvantage. To tackle this together as a group of individuals, a form of cooperation was required, a collective action approach. This is in a nutshell, how cooperatives originated in society, generally as grassroots organizations, enabling people to become involved on a small scale. The basic reasoning is as follows: in the event of a collective disadvantage and under certain conditions, a group of individuals can choose a cooperative structure to mutually coordinate their collective action. Setting up and maintaining the cooperative structure requires organizational social capital. The creation of social capital, in turn, requires a sustained investment of time and effort on the part of the cooperative's members (Ostrom, 1994). The institutional structure of the cooperative then becomes a framework for the interactions that sustain social capital.

Past research has identified a clear correlation between cooperative organizations and social capital, for instance, Putnam and Leonardi's (1993) classic study on Italian regions (Restakis, 2010). However, this is in the nature of "Wahlverwandschaft" and the exact nature of the relationship remains unclear. Although it is clear from past evidence that social capital sustains cooperatives, it is unclear whether the reverse is also true. Valentinov (2004) has pointed out that maintaining social capital as an organizational resource may become increasingly difficult when the membership base expands and becomes more heterogeneous, leading to growing complexity in organizational goals and activities. When the size and/or diversity of a group increases, maintaining and growing social capital becomes increasingly difficult (Coulter *et al.*, 1999; Markelova *et al.*, 2009). Nilsson *et al.* (2012), for example, have suggested that large (complex) agricultural cooperatives are disappearing due to a loss of social capital.

In that sense, two theoretical lines of reasoning are open. One is that the cooperative structure is an institutional safeguard for the maintenance of social capital. In other words, the causal relationship extends in both directions: cooperatives maintain (and by implication create) social capital. The other line of reasoning is that the relationship is one-sided or at least unbalanced: cooperatives require the "fuel" to be set up but are not capable of generating sufficient energy to continue operating as before if, for instance, members do not fully participate and respect their membership requirements, duties and responsibilities.

To test which theoretical line of reasoning is correct, it is necessary to measure the impact of the cooperative structure on organizational social capital. For this, we will first specify what we mean by social capital.

Dimensions of social capital

The model chosen to specify the different dimensions of organizational social capital is the one by Nahapiet and Ghoshal (1998). Their model has been used in several other studies that focus on organizational social capital, making it the most widely accepted conceptualization of its kind (Tantardini, 2016, p. 34). They distinguish between the structural, relational and cognitive dimensions of organizational social capital:

- The structural dimension covers the extent to which people in an organization are connected to one another and the overall pattern of connections between them. As such, this term refers to non-personal links between individuals or units. It is an indicator of employees' access to networks and how they interact to learn and share information, ideas and knowledge.
- The relational dimension consists of the kind of personal relationships people have developed with each other through a history of interactions. It refers to interpersonal relations between individuals (Granovetter, 1992). It focuses on particular factors, such as respect and friendship, which influence individuals' behaviour and shows the level of trust among employees.
- The cognitive dimension concerns shared meanings, language and symbols across the members of the network (Upadhyayula and Kumar, 2004). The cognitive dimension refers to resources that provide shared interpretations, shared values and cultural elements, visions and concepts. These resources are mainly codes and narratives that are shared by individuals. Cognitive social capital shows the extent to which employees clearly understand and accept organizational goals and values and the extent to which they are committed to these (Table 1).

On the basis of these dimensions, it has been tested whether social capital in a long-standing, traditional cooperative structure has been sustained in the face of strong external changes. There is no better place for this than in the financial sector, which in recent times has been rocked by crisis, scandal and fundamental changes in how services are delivered.

Background: cooperative banking

The cooperative model dates back to the early civilizations of Egypt and China in around 1,500–1,300 BC. In around 550 BC, agricultural products were exchanged and sold through cooperative models in Babylonia. These early cooperatives also provided loans to the poor and the chance to escape from the exploitation of informal money lenders (Groeneveld, 2015, p. 4). The origin of the modern cooperative model lies in the UK and Germany in the first part of the nineteenth-century (Bülbül *et al.*, 2013; Cornée *et al.*, 2018). The emergence of

A. Structural dimension	1. Social interaction ties (SIT)
B. Relational dimension	2. Trust (TR)
	3. Norm of reciprocity (NR)
	4. Identification (ID)
C. Cognitive dimension	5. Shared vision (SV)
	6. Shared language (SL)

Table 1. Dimensions of organizational social capital

consumer and producer cooperatives coincided with the industrial revolution and the depression in the agricultural sector. Facing a rise in poverty, greater exclusion from labour market participation and growing socio-economic inequality, they created and proposed new ways to meet their needs of which cooperatives were one.

The research underlying this article was conducted among a specific type of organization within this broader movement: cooperative banks. These emerged to address the problem of financial exclusion and exploitation of particular groups of citizens while overcoming opportunistic behaviour by borrowers (Migliorelli, 2018). The latter problem was experienced by Friedrich Raiffeisen, one of the heroes of the cooperative movement, who set up his first credit institution to provide loans to poor people (farmers) financed by funds collected from wealthy donors. The institution failed because many borrowers could not be compelled to repay their loans and donors lost interest. In his later attempts, the relatively intimate knowledge of participant's credit and trustworthiness within small communities ensured that loans were only provided to borrowers who could be expected to repay them. In addition to financial incentives, the social relations among members (social capital) were also a factor that contributed to the success of cooperatives (Fonteyne, 2007, p. 9). Cooperatives in banking and financial services can now be found in countries as diverse as France, Italy, The Netherlands, Canada, Japan, the USA, Austria, Germany, Switzerland, Finland and India (Cornée *et al.*, 2018). They are regarded as stakeholder value banks (STV), as opposed to shareholder value banks (SHV), based on differences in ownership structure, corporate governance, capital structure and business objectives (Ayadi *et al.*, 2010; Coco and Ferri, 2010; Groeneveld and Llewellyn, 2012). SHV banks can be described as banks that strive to maximize the interests of their shareholders. The essential characteristic of STV banks, as Llewellyn points out, is that, unlike SHV banks, their "primary purpose is not to maximize profits but to focus more explicitly on the interests of their customers, who are also their owners" (Llewellyn, 2014, p. 1) or on the interests of a wider group of stakeholders – notably customer-members in the case of cooperative banks or the regional economy and society in the case of savings and public banks (Ayadi *et al.*, 2010, p. 7).

The original goal of financial services cooperatives, as they are often called, was to act on behalf of a unified group of members and to satisfy the needs of those members. Traditionally, they are jointly owned and democratically controlled by their members (Hill, 2000; Chaddad and Cook, 2004; Birchall, 2013; Audebrand, 2016). However, there are important distinctions in how strongly different types of financial cooperatives are tied to members. Credit unions have a "common bond" that restricts them to serving an identifiable group of people; they are not allowed to offer membership to people outside this group. This may be a geographical community, an affinity group such as a church or the employees of a particular company or public body. Cooperative banks, on the other hand, are not restricted in this way. In both cases, the specific services they can provide to local and regional communities are seen as a strength (Coccorese and Shaffer, 2020).

The banks discussed in this article were part of the Dutch Rabobank Group, one of the world's top 10 banking cooperatives based on revenues. At the time of the research, Rabobank was active in 40 countries and services 8.8 million customers, has 440 places of business outside The Netherlands and 48,254 employees [full-time employees (FTE)]. There were approximately 1.9 million members at the time our study was conducted, which means that a large proportion of Rabobank customers were not members.

Until 2016, and thus during the research period (2013–2014), the Rabobank Group had a two-layer structure: Local Cooperative Banks located throughout The Netherlands, the central cooperative Rabobank Nederland (RN) located in Utrecht (the network's central bank) and the various subsidiaries of RN. The cooperative central organization had a mandate to control the subsidiaries on behalf of the local banks. Formally, the local Rabobanks are the parent organizations of RN, their central organization. The local banks were facilitated by RN to serve their members and customers. RN provides financial services and insurance and is the largest financial services provider in The Netherlands. The group operates in 47 countries and has an internal employee base of 40,029 staff (FTE, 2016). In 2016, local Rabobanks had almost 17,000 employees, while RN employed around 14,000 staff (FTE). RN was, until 2016, the central cooperative organization of the 106 member banks. The local banks were independent legal entities with their own banking license and their own balance sheet responsibilities, rather than being branches of RN, as each of them has its own banking license from the Dutch central bank. Within this network structure, there were two levels of membership: the member banks are members of RN and each of the member banks has its own members in their locality. Both the member banks and RN were fully cooperative in nature. The faculties of the local banks, the central umbrella and certain subsidiaries were linked through a cross-guarantee system. This arrangement means that all other participants support any participant who is in trouble. As a result, individual entities cannot go bankrupt. The 136 member banks of Rabobank were all registered with their own banking license.

Historically, membership of local banks used to be compulsory for entrepreneurs who borrowed money from the member bank. During the centenary of the Rabobank in 1998, it decided to modernize its member cooperatives, allowing all customers to become voluntary members. The member council of every bank consisted of 30 to 40 cooperative members, who were accountable to the wider membership. Members' interests were represented in the local member council by means of a layered system of member representatives (e.g. elected board members) who had the required expertise in complex (banking) activities. The members elected these member councils from among their peers.

The Rabobank Group represented a rare and highly valuable opportunity for research into the effects of the cooperative structure, for a number of reasons. It was composed of separate, licensed local banks within a uniform framework, which could thus be compared more systematically than is the case with most cooperative banks or even cooperatives more generally. Furthermore, the research took place in the aftermath of the financial crisis, which was a time when all large banks internally reorganized to an extraordinary degree. In 2015, it was decided to merge all local cooperative Rabobanks (LCBs) with the cooperative central organization (RN), with effect from 2016, shortly after the research took place. The result was one cooperative bank, with one balance and one banking license. This meant a considerable loss of power and influence for the LCBs within the decision-making processes of the organization. As the research took place in the period prior to the reorganization, it gave us a unique window of opportunity to examine how the membership-based, cooperative structure performed under duress.

Methodology

Data collection took place in the period 2013–2014 through a multi-method mix. A multiple comparative case study was conducted involving a selected number of cooperative banks of different sizes to assess their existing level of social capital and to identify factors that may impact positively or negatively on it. A purposive sample of five cooperative member banks of the Rabobank Group were selected, which we will here refer to as LCB A to E.

To collect data on the dependent variable, the extent of organizational social capital, 696 employees (58% response) of these five banks completed a 50-item questionnaire, which included the three dimensions of social capital (structural, relational and cognitive) of the organizational social capital model used by Nahapiet and Ghoshal (1998) in their study.

Unfortunately, the bank management withheld permission to survey members and/or clients of the local banks with reference to privacy concerns. As a result, the claims from this study are based primarily on survey and interview responses from (non-member) employees and other sources such as annual reports and membership numbers. All these other sources of data uniformly and strongly suggest that members have little to no contact with employees. A survey of members would have probably have confirmed this and given an opportunity to examine the causes and motivations behind this. So, while the absence of data collected directly from members is a limitation of the design and detracts from the explanatory power of the study, there is sufficient evidence to uphold the central claim of the article.

The questionnaire distributed to employees consisted of four parts: part one (the structural dimension) included seven questions relating to the interaction between personnel for the purpose of learning and sharing information; part two (the relational dimension) included 11 questions relating to trust (in the sense of relying on each other, regarding their needs as employees and in relation to sensitive and important issues) and sympathy (sharing feelings and emotional support for one another); part three (the cognitive dimension) included six questions relating to the respondents' personnel's acceptance of and level of commitment to shared missions, values, vision and goals; part four included additional questions regarding the impact and validity of members within the cooperation. The data were analyzed using SPSS. This survey mainly used existing scales from the literature. Likert-type or frequency scales involve fixed choice response formats and are designed to measure attitudes or opinions (Bowling, 1997; Burns and Grove, 1997). These ordinal scales measure levels of agreement/disagreement. The Likert Scale used was a five-point scale, enabling respondents to express how much they agreed or disagreed with a particular statement. Respondents could choose between the following options: strongly agree/agree/neutral/disagree/strongly disagree. The data were analysed through regression analysis with SPSS, using group size and the size of the organization as measured by FTE as moderating variables.

To examine how the independent variable, the cooperative structure, affected the dependent variable, organizational social capital, semi-structured interviews were conducted with 46 participants from the local banks (chairpersons, directors, managers, team leaders and human resources managers). The interviews, typically lasting 1–1.5h, were recorded using a digital recorder and written notes and observations were also made during the interviews. The list of topics included an introduction to the researcher, the research objectives, a discussion of the sound recording and assurances of the anonymity of the respondents' contributions. During the interviews, specific questions arose about events that had happened (which strategies and interventions were available at the team level), the persons concerned, the barriers and facilitating factors, the support received and desired and the results of the research to date. These interviews focused on the results relating to the performance of social capital: the commitment of the staff and management to cooperative principles, member-customer-related activities. Besides these, respondents from the national umbrella organization were included. In addition, desk research was used for an analysis of various strategic documents, such as annual plans and policy documents, and to understand the background and context of the local member banks. The text of the transcripts and other documents was analysed through an axial coding process, starting from a coding scheme designed on the basis of the descriptive framework and the operationalization of the theoretical dimensions.(Figure 1)

Results

The results of the survey are summarized in Table 2. They clearly showed a steep decline in organizational social capital across all local banks.

Structural dimension: social interaction ties with members

A large proportion of employees – approximately half – seem to have no or hardly any social interaction with members and customers. *I do not know whether being a cooperative simply means being in touch with customers or being visible sometimes. You can also be visible without being in touch with each individual customer* (LCB B Team leader Account management Private Banking). This can partly be explained with reference to their positions within the bank, although it goes against the desired 80%–20% direct contact principle stated in the policy of the central Rabobank Group.

A major reason for this was work pressure. Reorientation, staff cuts, stricter governance with regard to mortgages and client integrity were all leading to higher levels of (job) insecurity. Employees at Rabobank were generally too busy to meet the relevant regulatory requirements to be concerned with the cooperative principles. Staff were managed and evaluated increasingly strictly, during a period when their jobs are less certain than had been the case for a long time. This was a major reason for the reduced focus on members/customers and related policies. Staff members at LCB E indicated that the recent period of economic difficulty, including the reorientation of the Rabobank Group, had caused employees to feel less compelled to account for their responsibilities in developing and maintaining local network(s). All five banks had an increasing focus on efficiency and economic performance indicators. In addition, increased pressure from regulators had resulted in staff focusing on quality control.

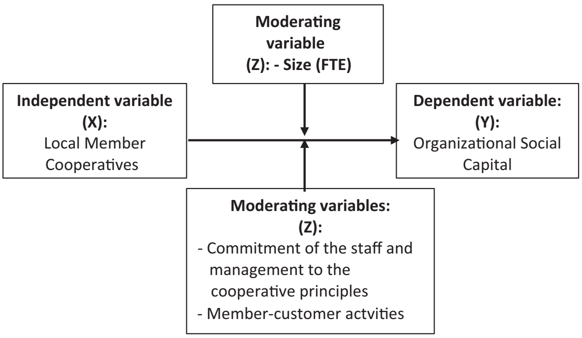

Figure 1. Operationalization of the theoretical variables

Table 2. Summary of the state of organizational social capital in the cases

A. Structural dimension	1. Social interaction ties: interaction between the banks and their members have become less frequent
B. Relational dimension	2. Trust: trust in banks and trust in customers have deteriorated
	3. Norm of reciprocity: staff were becoming increasingly focused on their own situation and had less eye for the bigger picture
	4. Identification: fewer staff members identified with and knew cooperative principles
C. Cognitive dimension	5. Shared vision: there was no shared vision, at all levels, of how the cooperative principles should translate into practice
	6. Shared language: there was no clear communication on the implementation of cooperative principles within the organization

These were demanding a considerable amount of time and effort. Respondents at LCBs B, C, D and E noted that the active encouragement of the cooperative principles was suffering because of these regulatory requirements, even in a shrinking organization. Respondents at LCB A indicated that the increased workload was essentially making it impossible for team leaders and managers to make time for, for example, the daily kick-off meetings. Staff members at LCB A indicated that higher workloads have caused people to focus mainly on their own work and responsibilities and have less regard for the bigger picture.

Relational dimension: trust, reciprocity and identification

During the research period, Rabobank was in the headlines on several occasions and received negative media coverage due to issues such as the London interbank offered rate (LIBOR) affair and its handling of client integrity, derivatives and mortgages [2]. These issues are indicators of a degree of friction in the relationship between the organization and its members/customers. The interviews revealed that, for all the employees interviewed, trust in members and in society generally had deteriorated. Due to various excesses in the past, employees are more critical regarding customers. Because of various checks and customer file integrity issues, many employees feel the need to "cover their backs" against errors by recording and logging everything. Many employees had even become suspicious towards each other.

There were some efforts on the organization's part to strengthen reciprocity by engaging members and local communities. For instance, LCB E had begun to establish various communities in the local area to share their ideas and take advantage of opportunities to network, such as communities for young entrepreneurs, medical communities and information technology communities. However, networking events were often held after work and the deployment of staff and ambassadors generally occurs in employees' private time and on a voluntary basis. Employees do not always have sufficient intrinsic motivation to participate, according to respondents at LCBs A, B and C. Commercial account managers, private bankers and financial advisors were among those obliged to attend member and council meetings, but staff members in attendance were not always actively involved and tended to "crowd together" at meetings rather than reaching out and seeking contact. They also lack a sense of purpose as to what is expected in terms of networking and customer interaction.

An important reason for this lack of motivation to engage with the local community was that employees were themselves often not residents of the area they were responsible for. The interviews show that of the five LCBs, only staff at LCB E know exactly which proportion of staff members actually lived in the local area. There was no formal policy to encourage this, although, at all five LCBs, staff indicated that they would prefer employees from the surrounding area because this would be beneficial to the LCB's knowledge of the local area. Staff at all five banks also stated that intrinsic motivation was a decisive factor in working for a cooperative and that employees who live in the local area will not necessarily be more actively involved in the local area. At LCB B, staff members indicated that participation among older employees was higher and that this generational difference was clearly visible within LCB B.

Four times a year, members received the members' magazine, which keeps them informed about all the news from the member bank. The plans of LCB E to set up communities were described in detail by the relevant local bank in a magazine, which was distributed throughout the organization for information and inspiration. As far as interaction with members is concerned, this was a very beneficial move.

There were Members' Councils in place at all the five member banks, which all work in a similar way. However, employees did not always know their council members, which is again indicative of the distance between the workers and these members. Only about 2% of members were active in the cooperative. The Councils were required to communicate with the Board and the management. At the time of the research, they were still exploring their role and the level of influence they could have on policy, governance and daily operations.

Cognitive dimension: shared vision and language

Over time, the distinction between services for customers and members had disappeared. The interviews showed that both managers and directors were unable to indicate the difference in the service for customers and members, other than the opportunity to participate in networks and possible election to the Members' Council. They expressed a desire for more guidance on this issue from the umbrella organization, which was not forthcoming. The management of the central Rabobank Group gave no explicit backing to the cooperative principles. During the research period at Rabobank, only two documents were available that explicitly referred to the cooperative principles. Within the five surveyed local banks and the central Rabobank Group, there was a structural lack of knowledge about these cooperative principles. Their application lacked depth. Only three of the employees interviewed were able to identify all cooperative principles. Many employees expressed the view that Rabobank had become a business just like any other for them, and that they no longer recognized the cooperative approach. Some of the employees, including executives and managers, had previously been employed by commercial banks and were, therefore, accustomed to non-cooperative business. Moreover, the interviews showed that an unambiguous strategy and shared vision for implementing the cooperative principles were lacking. Cooperative principles were not applied comprehensively and uniformly in day-to-day operations, nor were they monitored or overseen by the LCBs or RN. The Board of Directors of the Rabobank Group regarded it as impossible to apply the cooperative principles uniformly. *While the focus of the Board of Directors lies within the economic dimension, this Board views the cooperative principles as focusing mainly on the social dimension* (Rabobank senior policy advisor Cooperation and Sustainability).

Staff found it difficult to determine when and why to invite customers to become members because of the lack of a clear distinction: *The difference between members and customers has become blurred due to the lack of distinctions. There is no difference in service. Membership has always been touted as something important: you are supposed to have influence and control. But there is not any of that* (LCB D Chair). There were differences in membership policies between the local banks and no shared vision of who should be the members. Four of the five banks had a policy whereby customers were approached to become a member if they use at least three services of the bank. The interviews revealed that the two largest LCBs, A and B, approached wealthier customers in particular. As a result, customers from lower social classes and with less economic clout are underrepresented in the membership, which, in turn, could undermine the representation of the population with the aim of broader empowerment in member councils. There was no clear policy on this. It remained unclear why customers who had purchased only one product or service should not be regarded as meaningful customers. A customer who is locally engaged as a volunteer, but receives welfare support and only has a savings account, could still be a significant contributor to the community policy of a local bank.

The central group's policy strengthened developments at the local level. One advantage that members used to have over customers was that they had the exclusive right to buy members' certificates. In early 2014, however, Rabobank Group decided to make this option available to everyone to bring in external investment. This was a sensible step from a financial point of view, as cooperative banks, as compared to their commercial competitors, found it difficult to access capital markets at a time when they were expected to strengthen their buffers. However, it represented a further dilution of the role of members in relation to that of customers.

The effects of scale

The scale was used as a control variable in the survey. The results of the survey show that in relation to size (in terms of staff employed, FTE), the two smaller banks D and E had a higher aggregate score on organizational social capital in relation to all three dimensions compared to the larger banks, A, B and C. These results are in line with the assumption that small cooperatives score better than larger cooperatives. A one-way analysis of variance was used to determine whether levels of social capital within financial cooperatives differed among the respondents from the different cases. The analysis revealed significant differences among the groups ($F(4,652) = 34{,}691$, $p < 0.001$). Respondents in case E showed the highest levels ($M = 4.12$, $SD = 0.900$), with cases A and B as the lowest scores A: ($M = 3.10$, $SD = 1.010$) and B: ($M = 2.73$, $SD = 0.970$). A post hoc Scheffé test showed that case E differed significantly from each of the other four cases, but the difference between case A and case C was not statistically significant. The size of the effect is quite large: size predicts 17.5% ($n2 = 17.548$) of the variability in social capital scores.

This was found in relation to all three dimensions of organizational capital of Nahapiet and Ghoshal (1998). It suggests that smaller cooperatives may perform better as regard to social capital than larger ones. However, as in most banks at the time, the trend was to scale up and centralize.

Discussion

In their recent article, Mair and Rathert (2019) identified several enabling conditions under which alternative forms of organization, such as the cooperative, are likely to emerge and spread. However, it is just as critical to examine the conditions under which they can sustain. As we have demonstrated in this article, an organizational cooperative structure is not in itself sufficient to guarantee this.

The results are clear: in this case, having a cooperative structure has not proved a sufficient guarantee to maintain and strengthen social capital, based on survey and interview responses from non-members employees. The cooperative structure of a bank creates opportunities for the alignment and reconciliation of varying perspectives, values and opinions. Nevertheless, it appears that an organizational structure that promotes collective action is a necessary, but not sufficient condition for the creation of organizational social capital. The decrease in levels of interaction between members and the staff of the organization has resulted in a decrease in the accumulated social capital, which, in turn, has resulted in a decrease in local embeddedness and easy access to local market information. Time to interact with customers and members has decreased. It has become increasingly difficult to explain, from the perspective of personal benefit, why people should want to join a cooperative bank, as the advantages of becoming a member have declined significantly.

These results reflect a more general trend in personal financial services. Grosskopf *et al.* (2010) have pointed out that, for a long time now, in terms of the financial transactions and deposits of the entire cooperative banking sector, business with non-member customers has prevailed and has become entirely normalized, whereas previously most loans were given to members. In large cooperative banks, business with non-member customers represents a considerable proportion of their total business volume (Grosskopf *et al.*, 2010, p. 154). Today, the member base is often much more diverse and less closely tied to the organization than it was in the past, which means that financial services cooperatives now find it difficult to distinguish themselves from non-cooperative rivals in terms of prices, products, distribution methods and services. Banking cooperatives were originally formed with the objective of organizing access to financial services for demographic groups that either had difficulty obtaining this access or were denied access altogether. The survival and direction of banking cooperatives were closely related to their *raison d'être*. However, it could be argued that some banks now continue to coast along on the basis of long-established reputations and, in certain cases, that this reputation is slowly evaporating through the absence of significant distinctiveness. This reputation could be further challenged when larger operators offer cheaper banking services within the same set of consumers' protection requirements and rules.

Banks tend towards centralization and for various reasons, the need for local offices has decreased tremendously over the past decade. Given the growing use of e-banking, the need for physical presence at the local branch has been all but eliminated. Technological advances seem to strengthen the trend towards the disintegration of social capital. The qualitative, personal, "face-to-face" interaction that has traditionally occurred between cooperative banks and their members, a side-effect of the need for physical presence, has become increasingly difficult. The general direction of travel, therefore, seems to be towards fewer bank visits, fewer local offices and increasing virtualization. Organizational social capital will come under pressure through a combination of increasingly large-scale operations and reduced face-to-face contact with customers. This is not only because members and customers can avail themselves of banking services whenever and wherever they want but also because of the impact of layoffs and cutbacks in banking personnel, which have removed both the capacity for social interaction and eliminated existing personal relationships. The bank discussed in this article is no exception from the perspective of the organizational field: most large banks are moving in this direction. In large cooperative banks, business with non-member customers represents a considerable proportion of their total business volume (Grosskopf *et al.*, 2010). Future changes could be even more fundamental as new competitors such as Apple, Amazon, Facebook, Tencent and Ant Group have entered the market. A question for further research is whether there is a future for financial cooperatives, at least as we have traditionally known them. Perhaps, in other regulatory and economic environments, there is still a place for cooperative banks. They may survive as remnants of a former system that survive only in the nooks and crannies of the international financial services landscape, to be mopped up at some future point or they may have reinvented themselves, offering a genuine alternative to digital financial services.

In other words, it appears to be difficult to combine integration in national and international markets with local embeddedness, as such integration seems to require shedding the local networks that were so typical of the original organization, perhaps, because the strategic advantage of local embeddedness could not be scaled or because it had disappeared, as the original mission of the cooperative bank had been successfully fulfilled (comp. Heidenreich, 2012). Small cooperatives often have a more substantive relationship with their members than larger ones. Originally, a bank such as Rabobank would definitely have been a social enterprise. According to the typology by Defourny and Nyssens (2017), it started out as an organization set up solely for the purpose of mutual interest; eventually moving in the direction of a social business, with increasing reliance on market income from non-members. The hybridization of organizations under the influence of environmental pressures is a common phenomenon in the third sector and social economy (Pape *et al.*, 2020), now seen as less of an aberration and more like a common state of affairs. However, the question is at what point the mutual interest mission becomes so diluted that the organization remains cooperative in name only.

It should be emphasized that our research was confined to one holding structure, in one national context. To determine the influence and role of management in implementing cooperative principles in the daily work of banks, and the effects of the national banking landscape on pressure to conform to "normal" banking practices, would require similar research in other contexts.

Conclusion

In this article, we have focused specifically on the cooperative type of organization at banks. Cooperatives originally arose as a mechanism for handling collective action problems. Our findings suggest that, in the case of this particular bank, an organizational structure that promotes collective action was a necessary, but not sufficient condition for the creation and maintenance of organizational social capital. Theoretically, the cooperative structure provided a coordination mechanism for collective action and thereby contributes to the architecture for social interaction that is needed to foster, build and maintain social capital. However, the role and involvement of the membership have increasingly come under pressure, with the result that organizational practices are increasingly removed from the cooperative principles and their application in its day-to-day work.

There are different ways to theoretically interpret this. From the perspective of hybrid organizations, one could say they have become a hybrid of community and corporation logics, with the latter gaining ground (comp. Skelcher and Smith, 2015). At the same time, however, access to the types of services the bank provides have now become generally available and the cooperative has in this sense fulfilled its original mission, leaving more commercial types of providers to take over. From the perspective of field theory, the cooperative bank simply went along with its peer group (or perhaps, changed its peer group) and restructured its organization along the same lines, suggesting that field norms were essential to shaping social relationships (comp. Tregear and Cooper, 2016). Wider research encompassing different types of banks will be necessary to map the social and market dynamics that led to this process of homogenization. It does beg the question of whether an organization such as Rabobank will remain a social enterprise or whether it will be inexorably transformed into a commercial business adorned by some quaint historical relics. The legal organizational structure has slowed this process, by restraining the influence of outside investors, but will it stop it? Such mission drift (from a social enterprise perspective) would need to be countered by active steps to ensure commitment to cooperative principles throughout the organization (comp. Wolf and Mair, 2019), and thus, re-establish the primacy of the original mission.

It is a question of theoretical perspective whether the organization's development is seen as mission drift, in the sense that it is a deviation from core (cooperative) principles or as an evolutionary adaptation of the organization to broader changes to the banking field, at a point when the original mission – access to financial services for certain social groups – had been fulfilled or could be equally fulfilled by other types of organizations. Seen from this second perspective, maintaining an organizational structure that is out of tune with the norms of the organizational field would constitute a more serious kind of mission drift, emphasizing tradition over effective fulfilment of the organization's purpose. This is an ongoing debate.

The question is to what extent our findings for this cooperative bank apply more generally. Cooperatives are regarded as potential vehicles for introducing civicness into markets (comp. Brandsen *et al.*, 2010), in financial services (Llewellyn, 2014) and other fields. It could be argued that conditions in this field make it particularly hard to maintain organizational social capital and local embeddedness (Bülbül *et al.*, 2013).

A key factor is a scale. A decentralized, fine-grained structure of small-scale branches originally kept the bank close to its members, but over time its increasing size was accompanied by internal centralization and the loss of local autonomy. These results are consistent with the theoretical assumption that solving collective action problems is easier in smaller and relatively homogeneous groups and communities, as interaction is more direct, face-to-face and therefore of better quality (Olson, 1965; Douglas, 1986; Ostrom, 2004), which has been confirmed in studies on cooperatives (Fonteyne, 2007; Valentinov, 2007; Majee and Hoyt, 2010; Ruben and Heras, 2012; Jones *et al.*, 2016; Yu and Nilsson, 2019). The empirical evidence, in our case, showed that the overall cooperative score on levels of organizational social capital increased where the size of the group decreased. This was found in relation to all three of the dimensions of organizational capital. The study's findings suggest that the scale of the operation does indeed affect member/customer interaction and that smaller cooperatives perform better in this regard than larger ones. However, in banks as in many other areas, the trend is towards scaling up and centralization. If that is the case, then cooperatives will only remain distinctive if they buck the trend, resist isomorphic pressures and stay close to their origins (Groeneveld, 2020). In financial services, that may prove impossible.

A second important factor was the role of management and corporate governance in cooperative development, particularly the conflict between internal and external interests (comp. Ridley-Duff, 2010; Groeneveld and Llewellyn, 2014). This was clearly visible in our case, where there was an increasing divide between managerial strategy, which tended towards closer alignment with external trends in the banking field and adherence to internal cooperative principles. In this context, it is worth referring to Cook and Burress's (2009) suggestions for actions that the leadership of cooperatives can take to avoid such a process of "cooperative degeneration". Their life cycle framework includes five phases; economic justification, organizational design, growth, glory and heterogeneity, recognition and introspection and choices to emphasize the cooperative aspects of the organization. This suggests, in Rabobank's case, that it would have been equally possible to choose a different course, such as an initial public offering, instead of a centralization strategy.

A final important factor was digitalization, which diminishes the proximity on which social capital is based. By their nature, financial services are more quickly affected by this than human services. However, it should be noted that others are more optimistic on this point, arguing that digitalization can be shaped to benefit relationships with members, creating a new kind of proximity (Gorlier *et al.*, 2018) and that there are alternatives to the prevailing fintech model.

The question is what kind of cooperative, under what conditions, can maintain the social capital upon which it was founded (Smith and Rothbaum, 2014). More research is necessary to determine whether the factors that appear to have been crucial to organizational development in our case of cooperative banking (scale, management and digitalization) will have similar or different effects in other fields.

Notes

1. This article is a summary of dissertation research conducted at Radboud Universiteit (Stoop, 2018). The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of Rabobank.
2. The LIBOR scandal refers to a series of fraudulent activities relating to the LIBOR and the subsequent investigation. LIBOR is an average interest rate calculated through the submission of interest rates by major banks in London. It was discovered that some banks were giving the impression that they were more creditworthy than they actually were or were falsely inflating or deflating rates to profit from trading.

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