Organizational change, between institutions and organizations: the transformation of British building societies, 1970-2007

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Background

British banks were profoundly affected by the 2007-08 global banking crisis: Northern Rock was granted an emergency Bank of England line of credit in September 2007, and was nationalized in February, 2008; Alliance and Leicester was acquired by Spanish bank Banco Santander in July 2008; Bradford and Bingley was split in two parts in September 2008: its headquarters and mortgage book were nationalized, while its deposits, savings accounts and branch network was sold to Santander Group; HBOS was taken over by Lloyds TSB in January 2009.

These troubled British institutions share one common attribute: they were all former building societies. British building societies are not-for-profit financial institutions, owned by their members, historically specialized in providing mortgage loans. They represent a historic organizational form in the British financial sector, for the first building society was created in 1775 (in Birmingham). The "building society movement", as it was then called, had lasted for over more than two centuries, then, when in 1986 the United Kingdom, under Prime Minister Thatcher, passed a bill that fundamentally altered the traditional balance in the industry by allowing building societies to de-mutualize, that is, to abandon their traditional cooperative status and embrace the status of joint-stock companies. Several large building societies chose to exercise this option. Abbey de-mutualized in 1990; Northern Rock, Alliance and Leicester and Halifax in 1997 (Halifax subsequently merged with Bank of Scotland in 2001 to form HBOS); Bradford and Bingley in 2000. Notably, all these institutions, with the exception of Abbey, were at the center of the 2008 banking crisis in the UK.

But the question here is not that of the sustainability of former building societies' business model, which, with hindsight, is easy to assess. Rather, the puzzle is that of the fundamental shift in organizational forms that de-mutualization represented – a shift that was not, however, universal since several building societies chose to keep their not-for-profit orientation and their cooperative status. Two views have been widely mobilized to explain this change of organizational forms. First, most economists explain the shift by adaptation of individual organizations to environmental change: increased competition, decreasing margins, de-segmentation of financial markets clearly played an important role in spurring organizational change. However, while all building societies were exposed to similar changes in their environment, not all chose to embrace a full-fledged transformation of their organizational form. Traditional economic accounts do not help to understand this dual fate of the building societies industry. On the other hand, scholars in the ecological tradition do emphasize population-level dynamics that lead to industry-wide shifts in corporate identity. But, here again, this theory is hard to reconcile with the existence of several alternative paths within the industry. In addition, neither the standard economic nor the population ecology approach give much weight to institutional factors in explaining organizational change (viewed here as change in organizational forms).

Thus, another approach is needed. This paper will draw on the "new organizational synthesis" developed by a handful of organization scholars in the past fifteen years – an approach that emphasizes the co-evolutionary dynamics at play between institutions and organizations to explain change. While this approach seems well-suited to the specificities of the case studied here, the conceptualization of the role of institutions, and state institutions in particular, is still insufficient. This paper thus aims to contribute to the literature on population-level organizational change by proposing a version of the "new organizational synthesis" heavily influenced by older political science works on state theory.

Theory

Changes in organizational forms within an industry lies at the heart of the literature on the "new organizational synthesis" (henceforth, NOS) developed by Haveman and Rao, Schneiberg, Simons and Ingram and others. Schneiberg, for instance, undertakes to replace the history of cooperative economic organizations at the heart of US capitalism, pointing out that these cooperative forms were very strong during the "era of corporate consolidation" of the late XIXth – early XXth century in the United States, previously seen as being dominated by large corporations (Schneiberg, 2011). The relevance of NOS works for understanding the evolution of organizational forms with respect to British building societies is reinforced by the focus of some of these works (in particular, Haveman and Rao, 1997; and Schneiberg, 2011) on a very similar kind of organizations as the ones under study here: namely, thrifts and mutual banks (in the early XXth century in the United States).

According to the NOS perspective, changes in organizational diversity must be understood by linking institutional change and population ecology dynamics. Haveman and Rao talk of "co-evolution" of institutions and organizational forms: they see various organizational forms as the embodiment of "institutional logics" strongly tied to the external environment (Haveman and Rao, 1997). There is, Haveman and Rao argue, a recursive relationship between institutions and organizations: first, organizations "materialize" (specific) institutions; secondly, (general) institutions legitimize organizations (Haveman and Rao, 1997). Other authors also emphasize the key role of institutions in legitimizing or constraining institutional change (Baum and Olivier, 1992; Barnett and Carroll, 1993).

Positing the interdependence between institutions and organizations leads to formulate hypotheses on organizational change that rely on theories of institutional change. Thus, Schneiberg explains organizational change in the thrift industry with "the combination of standard diffusion processes and collective mobilization in support of new practices." (Schneiberg, 2012). The use of institutional theory has allowed NOS scholars to re-introduce agency within the analysis of structural organizational change. In particular, social movements are seen here as the key agents for change, constantly mediating between organizational forms and institutionalized fields. In the early XXth century United States, for instance, social movements used cooperatives "to confront, transform, or bypass corporations and markets" (Schneiberg, 2011: 1412). This focus on social movements enables a shift of "the explanatory focus from isomorphism and diffusion to contestation and the production of multiple logics within fields" (Schneiberg et al., 2008: 636).

This paper builds on the "new organizational synthesis" by focusing the analysis on the close interactions of institutions and organizations in determining the dynamics of organizational diversity. However, the dynamics of bank consolidation in late XXth century United Kingdom also present some challenges to this framework. In particular, both the peculiarity of banking in the late XXth century and the context in which these changes have taken place (two countries with a state-centered credit system) require closer attention to be paid to the role of the state, which is sidelined in several of the works mentioned above. This is the case, in particular, of those studies focusing on the thrift movement in early XXth century United States (Haveman and Rao, 1997; Berk and Schneiberg, 2005; Schneiberg et al., 2011). As Simons and Ingram point out, this propensity to downplay the role of the state may simply have to do with the fact that in the early United States the state was a "weak state" (Simons and Ingram, 2003).

Yet, it is hard to overvalue the role played by state policies and regulation in the evolution of banking systems, especially during the XXth century (see Grossman, 2010, for an overview). The importance of the role of the state has of course been acknowledged in the post-2007 crisis context (Freixas & Mayer, 2011). The exposure of regulatory failure during and after the crisis should not, however, obfuscate the extensive legal and regulatory involvement of the state in banking even at the peak of the "deregulatory" movement (Dewatripont & Tirole, 1994).

In addition, one may argue that the focus on organizational forms and their evolution warrant taking state policies and laws into full consideration. As Hsu and Hannan argue, the notion of organizational form involves an "abstraction from the uniqueness of individual organizations and a typification of commonality" (Hsu and Hannan, 2005: 477); such abstraction, as Hsu and Hannan point out, may arise top down from state orientation (Hsu and Hannan, 2005), in line with the focus of the present study. The notion of organizational form is, therefore, sensitive to the extension of organizational boundaries, both within the banking population and across sub-groups within this population (such as savings banks). Since, moreover, organizational boundaries are shaped to a large extent by organizations' institutional environment (legal and regulatory norms, interactions with state agencies, with accounting bodies…), organizational forms are therefore sensitive to changes in or constraints originating from their institutional environment. This is especially the case in the banking industry, as argued above.

Whereas some of the works in the NOS tradition, cited above, do not pay much attention to state variables (perhaps for the good reason that state variables did play a minor role in the specific context of the cases they studied), there are works within the population ecology tradition that attribute a greater role to the state in the ascent and the fall of organization forms, starting with Simons and Ingram (2003): some emphasize the legitimizing role of the state for new organizations (Baum and Oliver, 1992; Barnett and Carroll, 1993; Carroll et al., 1988); others underline the role states play in shaping competition (Dobbin and Dowd, 1997). However Simons and Ingram point to the limits of these approaches in that they see only one-way influences between the state and organizations; by contrast, their own work on kibbutzim in Israel emphasizes the interdependence of states and organizations as, potentially, "joint contributors to the production of social order" (Simons and Ingram, 2003). The same authors go on to propose to explore the "possibilities of symbiosis, competition, and rivalry between states and organizations" (Simons and Ingram, 2003: 612). The present paper will follow their approach. In addition, through the methodology chosen (a longitudinal qualitative case study), the analysis proposed here will attempt to balance the quantitative methods prevailing in population ecology to shed light on the *processes* by which the state and organizations might interact.

The State will be conceptualized here in three complementary ways: (i) as a set of specific actors within the "bureaucratic field" (state agencies, policy-makers, regulators), shaping organizational boundaries from the outside, and therefore influencing the nature and extent of organizational heterogeneity; (ii) as a set of institutional resources and opportunities shaping the transformation of organizational forms, through their appropriation by organizational actors; (iii) as a source of legitimacy for specific organizational forms. The latter two are similar to the variables used by Skocpol and colleagues in their study of the institutional origins of the large civic associations in XIXth and early XXth century United States (Skocpol et al., 2000). The first variable, however, is especially important when it comes to changes in boundaries between organizational forms: as in other contexts, the extent of change "predominantly reflects decisions taken by state actors" (Lister & Marsh, 2006: 258).

The hypothesis formulated here is that changes of organizational forms in the British building societies industry reflects a direct coordinated effort between key state actors and powerful building societies actors – by contrast with the soft, indirect effect emphasized in the literature (Simons and Ingram, 2003 and 2004). In addition, this coordinated process may involve actors and organizations at the population or sub-population level, which warrants a closer look at meso-level dynamics. The analysis, therefore, also builds on the insights of Scott, Meyer, Hollingsworth and others who have shown the importance of meso-level organization and coordination to explain the trajectories of populations of organizations or of whole business systems (see, in particular: Scott and Meyer, 1991; Berk and Schneiberg, 2005). This focus calls for a more appropriate articulation of the various dimensions of the state, from state actors' strategic action to the legitimation effects sought by organizational actors in the transformation of organizational forms.

Methods and data

In line with Polós et al. (2002) and Hsu and Hannan (2010), an organizational form is conceived here as a specific kind of collective organizational identity, which relies on "codes (or rules) that audience members hold as defaults for an organization" (Hsu and Hannan, 2010: 476). In the case of banks, an organizational form consists of three main elements: the organization's corporate governance (i.e. the structure and relationships between ownership and control); the organization's corporate charter (i.e. the goals and prerogatives given by its statutes) and the organization's size and territorial rooting. These various characteristics are interrelated; for instance, in the case of building societies, stakeholder-oriented models of corporate governance, together with local rooting, operate a check on dimensional growth; non-profit objectives limit diversification and nurture stakeholder-oriented corporate governance; small size reinforces links with local stakeholders; local stakeholders strengthen the non-profit orientation of these organizations.

As an organizational form, British building societies were clearly distinct from other types of banks, especially joint-stock banks, in the early 1970s. By contrast with the latter, building societies were not-for-profit financial institutions, owned by their members, specialized in collecting savings and making long-term individual mortgage loans. Table 1 summarizes the main differences between building societies and joint-stock banks along the three main dimensions of their organizational form, as defined above.

Table 1. Main characteristics of British building societies and banks, compared (as of 1986)

	Building societies	**joint-stock banks**
Corporate governance	Owned by members; cooperative status	Owned by shareholders; board nominated by shareholders at general assembly
Corporate charter	Not-for-profit; specialized in mortgage lending	For-profit; not specialized
Corporate size and territorial rooting	Mostly small-sized, local; a few larger, regional societies	Mid-sized, national and regional

The analysis relies on qualitative case study analysis. This methodology seems more suited to analyze the processes of organizational change both at population level and from a more macro-level perspective, while producing more insights into the motivations of key actors in the process of organizational change. As Eisenhardt has argued, case study analysis focuses on the "dynamics present within single settings" (Eisenhardt, 1989: 534). In addition, *qualitative* case studies might provide a better fit for interpretive inquiries (Denzin and Lincoln, 2011).

In particular, the analysis builds on (i) annual summary balance sheet data on individual building societies; (ii) content analysis of the Building societies' trade journal, the Building Societies Gazette; (iii) content analysis of the building societies' trade association guidelines and official policies; (iv) content analysis of official documents and correspondence between the building societies' trade association and building societies' regulator.

Summary of main findings

Main findings show that:

i) Organizational change within the building societies industry was indeed the outcome of a co-evolutionary process linking institutional change with organizational change;

ii) State institutions played a key role in that process;

iii) Legitimation effects interacted with selection effects to determine the outcome of the process of organizational change – and in particular the dual trajectories among building societies in the wake of the 1986 Building Societies Bill.

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