Member participation in the governance of financial mutuals: A case study of the Britannia Building Society Members’ Council 2002-2009

Dissertation submitted in partial fulfilment of the requirement for the MSc in Corporate Governance & Business Ethics

Phil Bale
Department of Management, Birkbeck College
University of London

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Dedication

Stephen Black
1973-2009

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ABSTRACT

**Purpose of this paper** - To explore whether, and if so how, a new member engagement initiative – the member panel - has improved corporate governance in the UK building society sector.

**Design/methodology/approach** - The results are based upon a single case study on one panel, the Members’ Council at Britannia Building Society. The paper starts by a discussion on the main strengths of the Members’ Council at Britannia. It then presents the main benefits and criticisms which emerged during the research, as well as some suggested areas for reform. Both primary and secondary data has been used.

**Findings** – This study demonstrates how a member panel can mitigate agency issues in a financial mutual. It also presents evidence that member participation in this panel increased awareness of mutuality and enhanced their view of the firm. The main benefits were identified and members, management and directors were all seen to gain from their involvement. High importance was also attached to member panel design and a positive participant experience. In particular, structural attributes appear to have been used to promote member representation on the Council, another significant strength associated with this model. Panel design was also seen to facilitate a dialogue that was regular, direct and sustained over time. However, a wide variation in panel design across the sector means that other member panels may not replicate the same benefits seen in this case. Interestingly, another significant finding was that the Britannia panel had been able to engage other stakeholders in a dialogue so had broader impacts than expected.
Originality/value - Using a concrete case, this paper demonstrates the extent to which a regular, direct and informal dialogue with members has been able to fill a perceived gap in the relationship with managers and directors in a mutual building society. Moreover, the benefits gained from this informal member engagement mechanism have been achieved alongside existing governance structures. In an industry which has experienced widespread loss of customer confidence, such panels could offer a template for other financial service providers to engage with important stakeholders.

Keywords: Corporate Governance, Member Panels, Building Societies, Accountability, Agency Theory, Stakeholders, Member Participation
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1. INTRODUCTION

The mutual form of corporate ownership is very much in vogue. Public policy developments under previous Labour governments have actively promoted multi-stakeholder mutuals in areas such as healthcare and schools (Birchall, 2001). More recently, the new Coalition Government’s ‘Big Society’ proposals would go even further, encouraging local voluntary groups to assume delivery of an array of important public services. In the financial sector too, the crisis in global financial markets has prompted considerable debate about the relative merits of different forms of ownership. It has certainly been noted that the mutual or customer owned business model has emerged from this crisis in better shape than its investor owned rivals (House of Commons, 2009).

In the United Kingdom (UK), this interest has focused upon building societies, which are a form of consumer co-operative that are owned and controlled by their members. The earliest societies were established in England in the mid-18th century to enable people to pool funds, buy land and build homes for their members. These were mostly small, ‘terminating’ institutions, which would dissolve once their objective to house their members had been met (Clarke, 1998). This early experiment proved hugely successful, providing as it did, working class people with often the only means to address their own housing needs. However, with the industrial revolution, demand for housing soon outstripped the limited savings of their working class members and so membership was widened to those who wished to save but not borrow (Clarke, 1998). In the process, building societies evolved into ‘permanent’ institutions which offered a
stable and comparatively low risk form of saving for investors (Cook, Deakin and Hughes, 2001).  

1.1 Demutualisation

However, as these mutual institutions expanded, member control was increasingly delegated to an elected board and managers - member involvement in governance then became severely attenuated. This has led to building societies being seen as run by self-perpetuating boards that operate as fiduciaries for a largely passive membership base (Hansmann 1996: 254).

This arrangement came under intense pressure in the 1980s and 1990s as fundamental legal and regulatory changes transformed the sector’s operating environment. In particular, a new Building Societies Act (1986) was introduced to increase competition and permit the demutualisation of building societies into investor owned banks. These changes facilitated the transfer of over 70% of UK building society assets into shareholder owned banks in little more than a decade. In turn, this led to serious doubts about the long term future for customer owned firms in the UK’s finance sector (Birchall 2001: 7).

Such legislation was justified on the basis that large building societies had outgrown the mutual model and a shareholder model of governance, free from the principle of ‘one member, one vote’, would improve the supervision of boards and managers (Birchall, 2001).

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1 This contrasts to the high failure rates experienced by banks in comparable markets during this period. In the US, for example, nearly 50% of investor owned banks opened between 1810 and 1820 had closed by 1825 and a similar proportion between 1830 and 1840 had done so by 1845. (Hansmann 1996: 249)
1.2 Member Engagement

In response, concerted efforts have been made to educate members about the long term value inherent in the mutual model\(^2\). This has been achieved through new and expanded member engagement strategies, which have re-evaluated how building societies engage with their members. In turn, this has led to the development of new, informal mechanisms aimed at providing innovative ways of listening to member needs. Such efforts reflect current best practice, as;

> ‘a recurrent theme in the management literature has been the need for managers to find better means of listening to their customers, suppliers, investors, and workers’ (Hansmann 1996: 289).

One of the most notable of these developments has been ‘member panels’, which have so far taken two distinct structures (BSA, 2010). The first *closed* panels involve a small group of appointed members that question and challenge senior executives, at varying degrees of frequency, and usually over a defined term of office. In contrast, the second *open* panels typically unlimited in size or length of member involvement and act as a mechanism for large scale feedback. In some cases, building societies have adopted both and some are even linked. The nineteen positions on Yorkshire Building Society’s ‘Member Forum’, for example, are recruited from the 11,000 registered members on their ‘Member Panel’\(^3\). It is the first type of structure that forms the subject of inquiry in this research.

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\(^2\) One often quoted example of this is voter turnout at AGM Elections. According to the BSA, increases from 1.7% to 18.6% (2002-2009) at the Tipton and Coseley Building Society and at Britannia from 1.6% to 27% (1996-2006) are typical of recent improvements. (BSA, 2007; BSA, 2010)

\(^3\) http://www.ybs.co.uk/your_society/financial/involvement.html [accessed 28.07.10]
1.3 Britannia Members’ Council

Britannia Building Society (‘Britannia’) was at the forefront of member engagement initiatives and in 2002 set up the first closed member panel of its kind. This ‘Members’ Council’, as it became known, has since been held up by the industry trade body, the Building Societies Association (BSA), as a leading example of member engagement in the sector (BSA, 2007). The objectives of the panel, clearly enunciated in its Terms of Reference, are to provide;

……..the Society with a consultative group of members, who are representative of the membership base. It is not part of the formal governance structure of the Society; however it does give members a visible and audible presence in the Society’s operations\(^4\).

The Members Council (‘Council’) holds further significance too, as the Britannia experience is likely to have influenced other building societies that pursed similar engagement strategies. The author’s own interest in this research topic, as a former Britannia member that served on its Council between 2005 and 2008, also lends itself to consider this case over any other.

In 2009, Britannia became the first mutually owned business to take advantage of a change in the law and transferred its business to a different type of mutual, Co-operative Financial Services (CFS)\(^5\). Unlike building societies, consumer co-operatives have a much stronger tradition of member ownership and democratic control. However, following an internal review, the model has been retained and

\(^4\) Britannia Building Society, Members’ Council Terms of Reference dated 22 November 2007

\(^5\) The legislation was the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, sometimes referred to as the Butterfill Act (2007) after the Member of Parliament which sponsored it.
adapted. This has seen the Members’ Council re-branded as a ‘CFS Customer Panel’, which reflects a new emphasis on customer issues in the enlarged business (as opposed to just members) as well as a narrower remit. This is because certain topics that were appropriate to discuss at the Council, such as strategy or risk management, were now overseen by members elected to the CFS governance structure.

As will become evident in the next section, member panels remain a relatively recent development within the building society sector, so analysis of their impact has so far been limited. This is therefore an area which remains under researched in the literature. The purpose of this paper is to understand whether, and if so how, small informal member panels have had a positive impact on governance in the UK building society sector. In the process, it is hoped this research will contribute new knowledge to an area and to an industry where there has been widespread loss of consumer confidence. If these panels can provide part of the solution, then the findings should also be of considerable interest to industry practitioners, regulators and the owners of building societies - their customers!
2. LITERATURE REVIEW

The mutual form has a long and established history in financial services, evidence for some that it holds characteristics well suited to the sector (Drake & Llewellyn, 2001; Kay, 1991). In particular, the greater homogeneity of interest in a mutual is said to promote trust, understanding and a culture well suited to financial markets where long term relationships (not spot transactions) are important. It is these relational contracts which help mitigate lender risks associated with adverse selection, moral hazard and problems of asymmetrical information with customers (Kay, 1991; Hansmann, 1996).

Drake & Llewellyn (2001) identify two distinct advantages which are seen to have helped sustain a substantial financial mutual presence alongside investor owned firms. Firstly, in the absence of external shareholders, the mutual model is seen to contain an efficiency advantage due to the ability to retain profits which can be used to maintain lower interest margins on products. In 1999, a report from consultants KPMG quantified the value of this benefit to members with the average net interest margin for building societies at 1.55%, some 0.5% lower than large commercial lenders (Cook, Deakin and Hughes 2001: 26). Elsewhere, the margin of this pricing benefit has more recently been put at 0.9% for the mutual sector, compared to 1.5% for investor owned banks (Welch 2006: 8).

Secondly, the model is argued to be a source of competitive advantage as agency costs are lower than non-mutual rivals. However, whether mutual financial organisations

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6 The costs of agency refer to the incentive problems that can arise when firms are run by managers who are not the owners or equity holders of a firm. This so-called agency problem, is present in all firms, and arises because contracts are characterised as a problem emanating from the separation of ownership and managerial control. See Fama & Jensen (1983) for a more detailed discussion.
do offer a superior agency solution has been subject to considerable debate within the academic literature.

2.1 The Agency Problem in Financial Mutuals

The claim that agency costs in mutual savings and loan providers are less severe is premised upon the redeemable nature of residual claims. In simple terms, this means owners of the business are able to reclaim their deposits, often at short notice. Fama & Jensen (1983) argue this represents a unique corporate control mechanism, akin to a partial takeover or liquidation of the firm, as it reduces the level of assets under managerial control and deprives the business of a principal source of capital. Such pressure cannot be exerted against managers in an investor owned firm as the disposal of equity has no direct impact on capital. Indeed, if investors were to exit at the same time, then downward pressure on equity values could heighten their losses. For this reason, investors are seen to favour dialogue, rather than risk inflicting costs on themselves through the use of exit as a control mechanism (Hansmann, 1996). However, as we shall see later in the chapter, there are barriers to the effective use of voice as a control mechanism.

Further agency benefits are said to come from reduced conflict between debt and equity contract holders - the so called ‘asset substitution’ problem (Drake & Llewellyn, 2001). This asserts that shareholders within investor owned banks have a high predisposition to risk due to the legal protections afforded to them. This limits their liability, which allows equity holders to benefit from uncapped profits and also restricts losses to equity investments. Debtors (including savers in a finance firm) have no entitlement to the profits which flow from higher risk investment decisions but
an increased insolvency risk could expose them to losses due to the limited nature of depositor protection insurance. In a financial mutual, such tensions are avoided as owners and depositors are largely the same and there is no direct claim on profits (Cook, Deakin and Hughes, 2001; Drake & Llewellyn, 2001).

However, critics argue the attenuated system of ownership claims in a financial mutual can result in higher monitoring costs. In particular, a dispersed membership base underpinned by the principle of ‘one member one vote’ creates barriers to effective owner organisation and control. This compares to the monitoring role of shareholders in an investor owned firm, which is potentially more effective with large institutional investors holding voting rights in proportion to their investment (Cook, Deakin and Hughes, 2001).

In contrast, the mutual ownership structure limits the benefits available to members who challenge management. If this was not disincentive enough, the costs involved can also be substantial due to the need to mobilise large numbers of members to sanction underperforming managers. Such problems become even more acute in larger firms, as the voice of individual members becomes diluted at the expense of further managerial discretion (Drake and Llewellyn, 2001). Hence, a central argument during the demutualization debate in the 1980s and 1990s was that larger building societies had outgrown their mutual status and needed to convert to a shareholder model to improve board and managerial oversight. This argument is supported by the existence of a tradable market in ownership which facilitates hostile takeovers, and allows investors to reward or punish poorly performing managers (Williamson, 1964). The

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7 Despite this argument, at least one UK study has found no evidence that organisational size is a barrier to effective member control in a consumer co-operative (Birchall & Simmons, 2003)
absence of this market in the building society sector is seen as further evidence of the impediments to effective member control (Drake and Llewellyn, 2001).³

However, Fama & Jensen (1983) believe these arguments under-play the ability of a mutual to mitigate agency costs via other more powerful means of control, such as exit. It is also argued this debate should not be seen in terms of whether sufficient mechanisms exist to influence management but rather if there is motivation amongst rights holders to use them (Drake & Llewellyn, 2001). In this respect, the evidence from certain studies (see Myners, 2001) does show that shareholder activism can improve corporate governance and business performance. However, sceptics maintain that shareholders, with their limited liability, short term investment horizons and portfolio diversification, are yet to assume the mantle of responsible and engaged owners (Drake & Llewellyn, 2001).

Overall, the results from studies which have compared the agency issue in mutual and non-mutual financial institutions are inconclusive. Drake (1995), for example, found evidence of higher expense preference behaviour in the mutual sector. However, as Drake & Llewellyn (2001) later highlight, this study was done before the full effects of UK de-regulation, so fail to reflect the impact of competition on labour & product markets in reducing expense preference opportunities. In contrast, Valnek’s (1999) review of UK building societies in the period 1983 to 1993 did find the mutual sector performed better than investor owned banks. In that instance, the findings were

³ The Building Societies Act 1986 introduced hostile takeovers to the mutual sector, but this option has not proved popular not least because a long, bitter contest could undermine confidence in the wider sector. For example, in 1969 a BBC news report which highlighted financial problems at the small Millom Co-operative Society led to a national run on the share capital of all retail co-operatives. This also extended to deposits held at the Co-operative Bank and the Co-operative Permanent Building Society. Maurice Corina (1969) ‘Co-op faces share capital crisis: run on savings’, The Times, 5 November, p.19
attributed to the lower agency costs from the removal of the asset substitution problem. However, these studies need to be viewed with a degree of caution as a focus upon agency costs has often been at the expense of other, potentially more significant, impacts on managerial behaviour. As Hansmann (1996) surmises;

There do not seem to be dramatic differences among ownership forms in agency costs deriving from poor monitoring of managers, whether the comparison is between investor-owned firms and firms owned by patrons other than investors, or even between owned and unowned (that is, non-profit) firms. The degree of product market competition facing a firm seems far more important than the firm’s ownership structure in determining the efficiency with which the firm is managed⁹.

2.2 Delegated Monitoring

Despite the inconclusive nature of the mutual agency debate, the prevalence of such issues in all types of organisation serves to highlight a role for delegated monitoring. In theory at least, the imperfections associated with managerial oversight are offset through this system. In practice, this has usually been achieved through elected boards of owner representatives, but the system also contains deficiencies (see Walker, 2009; Cadbury, 1992). Indeed, the near collapse of the global banking system in 2008 has only served to increase concerns about the efficacy of board monitoring (EC, 2010).

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In building societies, the role of delegated monitoring is said to be undertaken by self-perpetuating boards that operate as fiduciaries for a largely passive membership base (Cook, Deakin and Hughes, 2001). However, Hansmann (1996) argues customers can still be efficient owners of a business, even though a large, dispersed ownership base carries high costs of ownership. This is because when ownership is combined with custom, there is the reassurance that managers are not answerable to a different set of owners with interests not aligned to their own. The crucial point here is not that building society members fail to exert high levels of managerial control, but rather that no other stakeholder group can either. It was this observation that led Hansmann to contend that financial mutuals had become increasingly hard to differentiate from those with no owners at all (i.e.: non-profits).

That said, member engagement within UK building societies has been re-invigorated after the wave of demutualisations in the 1980s and 1990s (BSA, 2004). These conversions have been seen to represent a failure on the part of boards to educate their members on the long term value inherent in mutuality (Birchall, 2001). Societies which sought to defend their mutual status found themselves unable to persuade members to reject the promise of short term ‘windfalls’, funded from member reserves built up over many generations. It was this experience which prompted a review of how members can become more involved in shaping a Society’s products, services and strategic direction. In the process, it is now recognised that continued reaffirmation of the value inherent in membership is essential to secure the long term survival of the sector (Clarke, 1998; BSA, 2010). If such benefits fail to be understood by members, then a change in ownership structure at the remaining building societies is seen as much more likely (Welch 2006: 15).
Critics argue this shift towards member engagement, with its focus on such factors as higher Annual General Meeting (AGM) attendance, voter turnout and member panels, may well be misplaced. This is because the role of a board of directors within a financial mutual is arguably more constrained when compared to boards in investor owned firms (Drake & Llewellyn, 2001). As Fama & Jensen (1983: 318) explain, this reflects the ‘strong form of diffuse decision control inherent in redeemable residual claims’, which is said to reduce the importance of boards in the control process. In practice, this results from the simple and costless exit available to most members through the withdrawal of business to competitors – an option which avoids costlier attempts to exercise member voice and secure change through dialogue (Hirschman, 1970; Drake & Llewellyn, 2001). In this view, the role of a mutual board is merely limited to monitoring agency problems not protected by the withdrawal option, such as fraudulent managerial activity (Fama & Jensen, 1983).

Building societies have also argued that members themselves do not want a larger role in the formal governance process (BSA, 2010). High member satisfaction ratings across the sector have been used as further evidence that ‘members fail to push for more active engagement because of satisfaction rather than apathy’ (BSA 2010: 8). In other words, the sector is confident in its ability to meet the needs of members within existing formal governance frameworks. However, as has been noted, these claims ignore those members who opt to withdraw their membership rather than engage in further dialogue.
Such claims also belie a history of conflict between building society members and directors. Barnes (1984) highlights attempts in the 1970s by one member to gain election to the Board of the Co-operative Permanent Building Society (later renamed the Nationwide) on a platform which called for democratic reform. The 1980s and 1990s also saw member resolutions at a number of building society AGMs. These aimed to improve managerial openness and board accountability. In some instances, such as at the Anglia Building Society, a member was eventually invited to join the board but in the majority of cases these attempts were met with fierce boardroom resistance (Barnes 1984: 138).

On occasion, this appeared justified as a result of the dubious motives of some candidates. In 2003, for example, one member standing for election on a mandate to improve governance also ran a website which encouraged speculators to join building societies and pressure for conversion to investor status (BSA, 2004). Even so, this conflict suggests a structural imbalance between member voice and managerial control which may benefit from new member engagement initiatives outside the formal AGM process.

2.3 Member Panels

It is within this context that recent developments in the UK building society sector may be of some consequence. This is because many building societies have re-evaluated how they engage with their customer owners in recent years, leading to the development of new, informal ‘monitoring’ mechanisms which aim to improve how they engage with their members. Member panels are an important element of this change, but remain outside any formal governance process. This raises an important
question, namely whether these bodies can fill a perceived gap in the principal–agent relationship within mutual building societies. In a recent review of ownership and governance in the sector, Branston, Tomlinson and James (2009) argue they can and advocate membership panels that sit between members and directors to help rebalance the relationship and safeguard the wider public interest. Interestingly, their analysis also calls for a wider interpretation of mutual ownership, to include all significant stakeholders as members of such panels.

Despite this potential, member panels remain under researched in the academic literature and little is known about their impact. However, the industry trade body, the Building Societies Association (BSA), has started to produce best practice reports on member engagement within the sector. It is these reports which identify the main benefit of member panels – namely their potential to improve corporate governance (BSA, 2010). This is justified on the basis that panels facilitate higher levels of board accountability through sustained contact between board directors and panel members. In the process, both executive and non-executive directors are believed to gain a deeper insight into the needs of the owners of the business (BSA, 2010). Some societies even claim the mere existence of a panel has reinforced mutuality within their organisation, as managers become more aware that their decisions are open to challenge by panel members (BSA 2010: 13). These benefits are potentially significant, not least because non-executive directors in a mutual have an added responsibility to challenge management due to the problems faced by dispersed
members in assuming the role of active shareholders (Hansmann, 1996; Barnes, 1984)\textsuperscript{10}.

In the following sections these alleged benefits are assessed in the context of one such panel, the Britannia Members’ Council. In the process, it should become clear whether member panels do improve corporate governance as is stated and if so, how. It will then be possible to assess these findings against what has been suggested in the literature – namely that direct member contact improves director performance and helps communicate a mutual ethos to members. It is also hoped to identify the perceived strengths and weaknesses of the model adopted for the Britannia Council and whether the approach could be improved further. In the next chapter I outline the information that will be necessary to answer these questions and the process adopted to obtain it. I then move on to consider the specific case of Britannia in more detail before I surmise the findings.

\textsuperscript{10} The need to encourage more rigorous challenge in the boardroom has also been identified as a central theme for investor owned banks after the recent Walker Review (2009) on UK bank governance.
3. METHODOLOGY

3.1 Research Paradigm

As noted in previous chapters, the aim of this research is to explore whether and if so, how, closed member panels have had a positive impact on governance in the UK building society sector. In an attempt to answer this, an anti-positivist or interpretive epistemological stance has been adopted. This treats knowledge as created and negotiated between humans rather than objective, testable and replicable (Clough & Nutbrown, 2007). On this basis, an instrumental case study approach was selected to provide descriptive depth and analysis to a relatively new and under researched phenomenon (Stake, 1995). In doing so, it was recognised that a frequent criticism of case study research has been that results cannot be applied to a population beyond that under review. However, case studies can also contribute to wider theoretical knowledge through the in-depth examination of a case and the valid modification of existing generalised know-how (Stake, 1995).

Britannia, the single case chosen for this research, was selected due to the recognition its member panel has received within the building society sector (BSA, 2007). Set up in 2002, it is also the most well established and as a result should have informed subsequent member panel adoption. Furthermore, selection of this case benefited from the researchers own previous interest and experience as a former Britannia Council participant. This prior relationship helped reduce issues around data access due to the existence of well placed contacts at this particular firm.

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11 Researcher Robert Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1984: 23).
Once the case was identified, steps were taken to secure the necessary agreement from the firm to proceed. Initially, this involved the production of a synopsis which outlined the basic aims and methods adopted for the research. This was then handed to Britannia’s Chief Executive and also emailed to other potential interview candidates at the firm. The subsequent acceptance of this synopsis was an important first milestone for the project as it secured access to Britannia members, employees and directors.

3.2 Research Method

In this instance, a mixed method approach has been adopted that utilises both formal interviews and a postal questionnaire. This is a common method in qualitative studies as researchers seek out agreement between different data sources to strengthen the reliable interpretation of data (Stake 1995: 107).

Interviews were held with several Britannia directors and business leaders, on a one to one basis, and were semi-structured in format. This was designed to maximise data capture as interviews can develop more varied lines of enquiry and reveal rich data on the experiences of those involved (Oppenheim, 1992). Interviews also facilitate greater discussion around respondent views, with the potential to tease out interesting and pertinent examples. There is also the flexibility to revise interview questions, if needed, during the process of data collection (Oppenheim 1992: 82). Such outcomes would have been difficult to achieve if more prescribed methods, such as a questionnaire, had been employed for this group of respondents. That said, interviews can contain possible response bias, or reflect the views of the researcher (Collis & Hussey 2003: 169). Therefore attempts have been made to mitigate this by
incorporating the findings from an earlier postal questionnaire into the questions raised with Britannia executives.

In addition to interviews, questionnaires were also deployed for Britannia members involved with the Council. This method is often associated with a positivist epistemology and the production of quantitative data, but surveys can be designed to capture more qualitative information through open-ended questions. In contrast to interviews, these surveys are also less intrusive, can be cheaper and a more efficient use of time. This is most relevant when data is being collected and transcribed from a large, dispersed research population (Oppenheim, 1992). Interviewer bias is also reduced as survey questions are delivered in a standardised form, with interviewers unlikely to be present whilst the form is completed (Oppenheim, 1992). That said, some flexibility and depth of response can be lost, although efforts have been made to reduce this by providing frequent space for comments. On this basis, a postal survey was considered most suited to collect data from Britannia members.

3.3 Research Design

3.3.1 Sampling

The research population and sample are the same in this research project. The population constitutes the sixty eight members of Britannia who have served on its Council since its creation in 2002 until mid-2009.
In addition, a number of key individuals within Britannia were invited to participate in a semi-structured interview. Selection was based upon their knowledge and involvement with the Council, with interviews intended to help understand why Britannia has invested so much time and effort in the member panel concept. The individuals involved were the:

- Membership Engagement Manager
- Corporate Communications Director
- Chief Executive
- Non-Executive Director & Chair, Britannia Members’ Council

3.3.2 Data Collection

Semi-structured interviews

In total three interviews were conducted with Britannia, one each with the Chief Executive, Corporate Communications Director and a Non-Executive Director. In addition, an emailed response was provided by the Membership Engagement Manager. This has produced a wealth of qualitative data from Britannia directors and business leaders on their involvement with the Council. In each case, a schedule was emailed to participants in advance to allow time to become familiar with the questions (see Appendix I) and prepare a considered response. It was also hoped this would help participants feel at ease and increase their sense of control over the data collection process (Oliver, 2008). For much the same reason, interviews were arranged at a time, date and location to suit participants, who were also informed prior to interview that questions would not exceed 30 or 40 minutes. One interview was conducted in person at the House of Lords, with two others conducted by telephone to accommodate the work commitments of those involved. The interviews were carried out between
December 2009 and January 2010, to allow points raised in an earlier member focused questionnaire to be incorporated into these interviews. It should also be noted that consent was sought to record proceedings, which reduced data loss and maintained spontaneity and interviewer control (Stake 1995: 64; Oppenheim 1992: 67). Tapes were then transcribed in full by the researcher as soon as possible after the event.

**Self-completion Questionnaires**

In addition to the interviews with key personnel from Britannia, a questionnaire was also developed to canvas the views of past and present Council participants (see Appendix II). The aim was to identify those aspects of the Council which were viewed as being of most significance to those most closely associated with it.

Sixty two Council participants were sent questionnaires out of a total research population of sixty eight. Six forms were not issued as one former Council member was deceased and four others were not contactable. The research author, a former Council member himself, also chose not to complete a form to reduce claims of author bias in the results (Collis & Hussey 2003: 169). Questionnaires were sent out in September 2009, shortly after finalisation of the merger between Britannia and CFS on 1st August 2009. The Membership Engagement Manager sent one email reminder to members several weeks later. This process resulted in twenty seven completed forms being returned by the November 30th deadline, which equates to a respectable 44% response rate. This provides added confidence in the reliability of subsequent findings.
The questionnaire was designed to maximise this response rate and reduce respondent stress. In this regard, forms were limited to four sides of paper with an estimated completion time (20 minutes) clearly stated on the form. Information also explained how to complete and return the form, with the researcher's contact details available in the event of further questions. Gray (2004) highlights a number of other techniques which can be deployed to improve response rates, such as providing a mixture of list, scale and category questions. Birchall & Simmons (2004) also found in their study of elected members within the Co-operative Group, that response rates improved when questionnaires were sent via the business studied rather than direct from researcher(s). For this reason, agreement was reached with Britannia for their Membership Engagement Manager to send out the questionnaires together with a cover letter from them. This letter helped introduce the researcher and reiterated the independent and voluntary nature of the project (see Appendix III).

In addition, a further letter from the researcher was included for respondents which elaborated upon the aims and motives for the research. This letter had two versions (see Appendix IV & V), one of which expressed an interest in future interviews with eight former Council members who had recently been appointed to Co-operative Group Regional Boards as part of the merger. In the end, one questionnaire was completed with a new Regional Board member over the telephone on medical grounds. However, this raised doubts that the time, cost and inconvenience involved in interviews would reveal significant new information, so these follow up interviews were not pursued. Letters were also used to remind participants that their involvement was both voluntary and could be withdrawn at any time and would protect respondent

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anonymity and confidentiality. The independent nature of the research was further reinforced through the inclusion of a Birkbeck College logo on the questionnaire and researcher letter. In addition, pre-paid reply envelopes to a non-Britannia address provided added reassurance to participants that their contribution would remain confidential. The final survey and letter templates were then subject to peer review by a supervisor to ensure the overall design and ethical approach was sufficiently robust before being tested through a round of pilot questionnaires. This was intended to further improve response rates and identify any ambiguities on the form (Collis & Hussey 2003: 195).

Secondary Sources

Whilst the questionnaire results and interviews are the main primary forms of data for this research, other secondary data sources have also been reviewed and analysed. This has included the minutes from Members' Council meetings between 2002 and August 2009. Stake (1995) notes such documents often serve as substitutes for activity the researcher cannot observe themselves. In this project, most Council meetings had already taken place and attempts to negotiate access to observe subsequent CFS Customer Panel meetings proved unsuccessful. In light of the researchers own experience of this particular member panel, this decision was not expected to be detrimental to the research aims and outcomes. Other secondary sources included information on Britannia's website, newspaper articles and trade association publications.
3.3.3 Data Analysis

The main problem with analysis of qualitative data is the absence of a clear and accepted basis for its analysis. However, regardless of approach, value extraction from data analysis largely depends upon the quality of interpretation (Collis & Hussey, 2003). In the anti-positivist research paradigm, researcher and respondents engage in a much more interactive rather than scientific process, with simultaneous data collection and analysis. In essence, the researcher considers and reflects upon emerging patterns within the case and adapts their methods as required (Stake, 1995: 78). Thematic data analysis has been adopted for the analysis of transcripts and survey results and is highly inductive, which means themes emerge from the data and are not subject to imposition by the researcher13. For example, one theme which emerged from the member survey was that some respondents compared the Britannia panel to a focus group (see Appendix VI). Interview questions were therefore refined to elicit a response from Britannia's management on this particular point. The resultant data from the various sources has also been compared and contrasted for similarities and differences, a process which has continued until no new issues become evident.

3.3.4 Ethical Issues

Research carries with it certain responsibilities which need to be considered and respected when human subjects are involved. This reflects the often complex nature of ethical issues which can lead to understandable differences of opinion on how to resolve them. It is likely that the researcher’s own judgement will play an important part in determining how such research is conducted. However, there are a number of established ethical protocols which can help guide a successful research project and

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13 http://e-articles.info/e/a/title/QUALITATIVE-DATA-ANALYSIS/ [accessed 16.08.10]
minimise concerns during research. One of the most important of these is the principle of informed consent, which dictates that all respondents must have sufficient information to decide whether or not to participate in research (Clough & Nutbrown, 2007). Oppenheim (1992) further highlights the importance of confidentiality and anonymity to respondents – and the researcher – as this could impact response rates. In this instance, it was confirmed through Britannia that both the firm and the four interview participants could be identified. However, issues pertaining to confidentiality and anonymity are still relevant for member survey respondents – some of whom may still serve on the Council. These issues have had to be considered and where necessary, addressed during the current research, with care also taken to ensure the same information on ethics has been provided to everyone involved (Oliver, 2008).

Combining these approaches and protocols, I hope to understand whether Britannia's member panel has improved corporate governance as has been implied in the literature, and if so, how. The Members’ Council has since 2009 been superseded by a Customer Consultative Council, so the views of participants may well now change as new members join the Council and its narrower remit and a co-operative ethos all come into play. Replication of research findings is therefore unlikely to yield similar results, a factor which could reduce the reliability of this research (Collis & Hussey 2003: 58). However, one objective of this research has been to capture a dynamic picture at a unique moment in time – as two different types of mutual organisation combine for the first time in Britain. The findings therefore do have relevance and a detailed account on how and why the research has been designed, conditioned and analysed has been provided.
This will aid others who wish to understand the process followed. In turn, it is hoped this unique data set will act as a useful reference point for any future research undertaken in this area.
4. RESULTS, ANALYSIS & DISCUSSION

In this chapter, I evaluate the data collected to ascertain whether direct member contact has improved business performance or helped communicate a mutual ethos to Britannia members. In the process, I set out what were seen to be the main strengths of this particular panel, sub-divided between issues of structure and composition as well as the member experience. I then move on to outline five benefits that were most frequently raised during the research as well as three criticisms – performance measurement, panel independence and the reliance upon a particular corporate culture and leadership. The chapter concludes with a brief discussion on some suggested improvements that were raised during the research.

4.1 Council Strengths

4.1.1 Structure & Composition

Structure

Table 4.1 identifies which of the ten largest UK building societies had closed member panels, as at April 2010. It also provides an overview of those structural attributes – identified from interviews and survey responses – that were most cited as central to this panel’s success. Table 4.1 then compares these attributes across the sector, highlighting the wide variation in member panel design. Indeed, none of the four panels highlighted are structured exactly the same. Such differences reflect an evolutionary approach to member panel development which emerged due to the absence of a comparable template. This was evident in interviews with senior managers at Britannia, who claimed to have adopted a ‘trial and error’ approach towards their own panel for this reason. Despite this, there was still broad agreement
between managers and directors as to which aspects of the Britannia Council had been most beneficial.

Table 4.1: Member Panels - Top 10 UK Building Societies (by assets)

<table>
<thead>
<tr>
<th>Society</th>
<th>Group Total Assets (Kbn)</th>
<th>Closed Member Panel?</th>
<th>Start Date</th>
<th>Agenda Input</th>
<th>Meeting Frequency</th>
<th>Panel Chair</th>
<th>Panel Size</th>
<th>Member Term</th>
<th>Phased Recruitment</th>
<th>Independent Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide</td>
<td>202,961,900</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Britannia 4</td>
<td>37,216,700</td>
<td>Yes</td>
<td>2002</td>
<td>Members/Executive</td>
<td>Quarterly</td>
<td>Non-Executive Director</td>
<td>24</td>
<td>3 Years (2 Years until 2005)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Yorkshire</td>
<td>23,031,800</td>
<td>Yes</td>
<td>2005</td>
<td>Executive</td>
<td>Half-Yearly</td>
<td>CEO</td>
<td>10 (up to 16)</td>
<td>Unlimited</td>
<td>Yes</td>
<td>No 3</td>
</tr>
<tr>
<td>Coventry</td>
<td>17,364,400</td>
<td>Yes</td>
<td>2008</td>
<td>Members/Executive</td>
<td>Quarterly</td>
<td>CEO</td>
<td>12</td>
<td>2 Years</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Chelsea 3</td>
<td>14,660,800</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skepton</td>
<td>13,647,000</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leeds</td>
<td>10,136,600</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West Bromwich</td>
<td>9,185,500</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principality 2</td>
<td>6,388,700</td>
<td>Yes</td>
<td>2005</td>
<td>Members/Executive</td>
<td>Half-Yearly</td>
<td>Member</td>
<td>14</td>
<td>2 Years</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Newcastle</td>
<td>5,092,000</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Data extracted from various Society websites and telephone conversations (April 2010)

NOTE:
2 Principality plan to review the future of their panel at the end of 2010 due to the perceived success of open ‘Member Talkback’ sessions held across Wales over the past year.
3 YBS recruit members to their closed member panel from 11,000 members on their open member panel.
4 Britannia BS merged with Co-operative Financial Services on 1st August 2009 and ceased to exist as a Building Society.
5 Chelsea BS merged with Yorkshire BS on 1st April 2010 with the Yorkshire panel increased in size to include former Chelsea members.
6 Yorkshire has phased recruitment only in the sense that members are replaced as and when they decide to step down – a fixed proportion do not retire each year as at Britannia. Coventry is just reaching the end of the first two year term on their Council and now plan to phase future recruitment, although exact details are yet to be finalised.

The first feature identified in both the interview and survey responses was the staggered retirement of Council members. This change was first introduced in 2005 and requires a third of members to stand down from the Council each year. The Chief Executive felt this regular turnover had helped maintain Council independence and provided more frequent opportunities to ensure membership on the panel was broadly representative. Survey respondents also valued the balance this change achieved between experience and the annual introduction of enthusiastic new members.
However, the Chief Executive also stressed another perceived strength, namely the seriousness with which the Britannia Board regarded the Council. This claim was supported by the commitment given by two board members – the Chief Executive and one Non-Executive Director – to attend each Council meeting, with other board members also said to attend from time to time. These claims were backed up by the appointment of an independent Non-Executive Director as Council Chair, providing as it did, a direct Council voice into board level discussions. This arrangement was unique amongst the panels listed in Table 4.1, as a Chief Executive or panel member was most often favoured for this position. However, both choices fail to provide the independence and board access that the Britannia Chief Executive felt was so important for this role.

In addition, the Society’s Membership Engagement Manager argued the size of the Council - at twenty four members - had been another important design factor. This was said to have created a forum large enough to add value and be broadly representative, but without discussions that were difficult or unfocused. Once again, this approach differed from other member panels where the number of members involved ranged from twelve to sixteen.

That said, two specific factors – the member term of office and number of Council meetings – emerged as central themes in all the interviews. The term, which was increased in 2005 to three years, was said to give Council members more time to develop their knowledge of the business and hence improve their contribution at meetings. The number of Council meetings - once every three months – was also more than most other member panels. Both features were said to have been ‘crucial’ in the
Council’s development as they helped maintain and strengthen the dialogue and human relationships seen to underpin Council participation. It was Britannia’s Communications Director, who argued this point most convincingly;

……the fact that we brought members together regularly so it wasn’t just a one off meeting after which you never met each other again, I think was crucial to its success because members of the Council formed their own relationships and friendships, many of which endure after the Council and that enabled an atmosphere of trust, an atmosphere of common understanding, a common language evolved, that contributed hugely to the richness of the debate that we then had within Council meetings.

Despite this, evidence also emerged during the interviews of a debate within Britannia on how often the Council should meet – with some stating the Council should have convened more often. Such concerns, according to the Communications Director were the result of a business reporting cycle that operated on a monthly, rather than quarterly basis. This resulted in more frequent management decisions that had, on occasion, limited the time available for Council consultation on major business decisions. This was also raised by the Non-Executive Director amongst others, who argued a three month interlude between Council meetings had made it harder to sustain a dialogue with members on some important issues.

In summary, a high level of importance was placed upon panel design by both Council participants and in particular, management. This is because the Council was structured to encourage a prolonged and direct dialogue between members, management and the Board. Not only does this suggest member panels can add more value through a
similar structure but it also implies that other building societies may not have adopted the most efficient panel design.

**Composition**

In the previous section it was noted that certain structural characteristics – such as panel size - had given Britannia more scope to reflect its membership base in the Council. Even so, most survey respondents stressed composition above structure, as the Council’s biggest strength. It was also evident that most believed efforts in this area had been successful, although agreement here was not universal. This was one such response;

> I’m concerned at how the members are recruited – nearly everyone is articulate (which is good!) but I’m concerned the balance may NOT reflect the underlying membership.

This reflects the inherent difficulties involved in attracting certain categories of member, a problem surmised by the Communications Director;

> ……any organisation that relies on volunteers will tell you the same thing - it can be really, really difficult to get younger people, to get women, to get people who are employed full time to engage in this kind of activity.

In spite of this, senior management and directors felt their panel had achieved broad success in this area. This was another important reason behind their support for the Council. That said, several of those interviewed did accept that it had been far easier to reflect customer relationships, such as product range or distribution channel, as
opposed to more complex demographic factors. There was also some concern that the Council had achieved more success with certain demographic criteria, such as geographical location, than others. This concern was at its greatest in areas such as gender, race or age profile.

However, it is important to recognise that such claims about representation are entirely subjective in nature. No statistical analysis has to date been undertaken to test whether this often quoted strength is supported in the data. Therefore, in order to shed more light on this, Table 4.2 outlines Council data for those three demographic characteristics - gender, age and race - where attempts at membership replication were felt by some to have been less successful. This data has then been compared against that for Britannia as a whole, where it is available, to ascertain whether concerns expressed in these areas are justified (see Figure 4.1 & Table 4.3).

Table 4.2: Members’ Council Demographics: 2002-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Appointed</th>
<th>Male</th>
<th>Female</th>
<th>16-24</th>
<th>25-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55-64</th>
<th>65+</th>
<th>White</th>
<th>Black</th>
<th>Asian</th>
<th>Mixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>21</td>
<td>11</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>6</td>
<td>9</td>
<td>1</td>
<td>19</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2004</td>
<td>11</td>
<td>7</td>
<td>4</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>0</td>
<td>11</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2005</td>
<td>12</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>9</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>2006</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2007</td>
<td>14</td>
<td>7</td>
<td>7</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>0</td>
<td>13</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>2008</td>
<td>9</td>
<td>4</td>
<td>5</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>8</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>68</td>
<td>36</td>
<td>32</td>
<td>2</td>
<td>10</td>
<td>12</td>
<td>16</td>
<td>23</td>
<td>3</td>
<td>61</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

1 Excludes new appointments made after 1 August 2009
2 The age of two joiners in 2002 is unknown

Source: Britannia/CFS (E-mail dated 12 February 2010)
The first point to note from Table 4.2 is that Council appointments appear to have become more representative over time for all three demographic characteristics. This was particularly evident from 2005 onwards, when Britannia switched to a phased system of Council member retirement and recruitment. For example, whilst four more men were appointed to the Council between 2002 and 2004, and equal number were appointed between 2005 and 2008. The figures in Table 4.2 also suggest the Council was able to achieve a good gender balance over the 2002-2008 period, with a 53% (36) to 47% (32) split between male and female appointments. In terms of race, 89.7% of Council appointments were ‘white’, which compares favourably against 98% for Scotland and 91.3% for England & Wales at the 2001 Census\textsuperscript{14}. Sadly, a more meaningful comparison with the gender split or ethnic composition of Britannia members could not be undertaken as this information was not obtainable at the time of request.

However, we do have a more complete data set for the age profile of Britannia members (see Figure 4.1 & Table 4.3) as at March 2009. This reveals that those members aged under-17 and over-70 were the only groups under represented on the Council. It also shows that members aged between 17 and 30 were fairly represented, despite some doubt in the interviews. Those aged between 31 and 60 were most likely to be over represented, but the gap only became significant in the 51-60 age bracket.

Overall, the various data available on gender, race and age does support the claim that the Council was able to reflect the Britannia membership base. Even so, as under-17s are members under building society rules their lack of voice within the business – seen through the Members’ Council - should be viewed with concern. Despite the particular challenges this group presents, it may need targeted initiatives and perhaps even a ‘Young Members’ Council’, to help redress this imbalance.

4.1.2 Member Experience

Flexible Format

In addition to structural issues, there was evidence that the format adopted for meetings was seen as beneficial. These were seen to have maintained participant interest with an agenda that provided wide exposure to the business. In a typical meeting, there would be a business update from the Chief Executive, followed by a mixture of presentations, interactive workshops, site tours and question and answer sessions. The agenda would also contain a mixture of both new and repeat agenda items, such as the role of Non-Executive Directors, deemed important enough to
include at least once during a members three year term. However, care was also taken to ensure new items could be added by the Council or senior management.

It is this open and flexible approach, when combined with direct management access, that was important to the Non-Executive Director who argued;

Its strength is what it does; it’s this dialogue at the highest level that is so refreshing and important. There’s nothing out of bounds…….so the Members’ Council can ask for a presentation on any aspect of the business and it has never ever been declined, anything that has ever been asked for, including the remuneration of the executive has always been agreed to, so I think that’s its strength, it’s open, honest and direct.\textsuperscript{15}

This is confirmed in the minutes from Members’ Council meetings which include a wide cross section of agenda items, from the interest rates payable on children’s savings accounts to the Society’s ethical procurement policies. The Council even invited the Britannia Staff Trade Union to present on their role and relationship with senior management. Moreover, it received presentations from CFS management in the period leading up to the member vote on the merger.\textsuperscript{16}

In order to educate members as much as possible on the business, the Council also met at Britannia sites across the country. Venues included a member service centre in Bristol and a large mortgage intermediary business in London – all in addition to

\textsuperscript{15} The CFS Customer Panel has a more limited remit that the Members’ Council and discussions will be confined to customer related topics. This would include product related matters, service levels and pricing but not ownership related items. It is too early to assess what impact this change could have on the model.

\textsuperscript{16} Britannia Members’ Council, \textit{Various Minutes 2002-2009}, Leek: Britannia Building Society
meetings at the Head Office in Leek. There were even attempts to coincide Council meetings with other events, such as the Society’s annual ‘Living the Values’ employee awards scheme, which also enriched the member experience\textsuperscript{17}.

Such efforts extended to Council participation at events outside the regular meetings with management. This is most evident through the Council’s inclusion in membership engagement activities, such as ‘member lunches’. These were small local events, where branches would invite several dozen members to meet with senior directors over lunch. If a Council member lived near one such meeting, it was routine to extend the invitation to the member concerned. Council members were also called upon to help re-launch branches after Britannia bought and re-branded an extensive branch network from a former building society, the Bristol & West. In each case, opportunities were present for Council members to learn more about the Society and for Britannia to reinforce this \textit{visible} and \textit{audible} member presence in its business.

Interestingly, these examples also highlight how Council dialogue has extended to a range of internal and external stakeholders, as and when required. In the process, some of the rational for stakeholder panels – as advocated by Branston, Tomlinson and James (2009) – can be found in the member panel model. However, unlike the stakeholder approach, member panels avoid the risk of paralysis as membership is not extended to such a diverse set of interests.

\textsuperscript{17} Ibid.
Participation Costs

In addition to the emphasis on member experience, Britannia also sought to minimise participation costs for the members involved. In line with this strategy, the Society provided dinner and hotel accommodation the night before meetings. This encouraged Council members to interact prior to meetings but was also intended to show members that their contribution was valued. Other potential costs were also lowered through the reimbursement of reasonable travel expenses and a fee, equal to £100 after tax, which was only paid for attendance at each meeting\(^\text{18}\).

Participation Benefits

Figure 4.2 highlights the benefits associated with Council participation that were identified by respondents in the survey. This data helps to explain whether the emphasis placed upon structure and participant experience in the research results is also reflected in perceived benefits for Council respondents. The results are contrasted with a previous study on member participation in consumer co-operatives, which focused on the Co-operative Group (Birchall & Simmons, 2004)\(^\text{19}\). It was deemed useful to compare this data, not least because it pitches the Co-operative Group’s more formal governance structure against a more informal one. Britannia is also now part of the Co-operative Group as a result of its merger with CFS.


\(^{19}\) Data for the Co-operative Group is based on results from a self-completion questionnaire returned by 448 members (out of around 500) who were elected to a network of local Co-operative Group Area Committees. Data on perceived participation costs was not collected as these were not found to be significant in the Birchall & Simmons (2004) paper and only a handful of members resigned early from the Council.
Figure 4.2: Member Participation - Benefits

Note: Figures for the Co-operative Group have been extracted directly from Birchall & Simmons (2004) and may be subject to minor variation. It was also not possible to replicate the exact survey question for this exercise.
The results reveal the importance placed on internal (subjectively perceived) over external (material/tangible) benefits for both Britannia and Co-operative Group participants. It can also be seen that Council members recorded higher levels of enjoyment, learning and capacity to voice opinions – both in comparison to other benefits and to elected Co-operative members. It is possible that such findings reflect the regular and direct access to senior management under the member panel model, over the tiered and elected structure found within the Co-operative Group. Respondents also rated a sense of control, achievement and self confidence much lower under the member panel approach, and when compared to elected members in the Co-operative Group. External benefits, with the exception of the premium placed on a social life (41%), were found to hold less value for Council respondents. Overall, the results appear to confirm that a varied programme of learning, events and social interaction has been the correct strategy to maintain member involvement in the Council\textsuperscript{20}. That said, this data also suggests that improvements to the Council should concentrate on an improved sense of achievement and ability to influence business decisions amongst participants. Such findings are important when we consider the five main benefits said to arise from this panel, which are now outlined in more detail.

\textsuperscript{20} This was reflected in the low number of Council resignations – five (7%) between 2002 and 2009 – four cited personal, family or health reasons and remain in contact on an alumni network, whilst a fifth felt too young for the Council. (Source: Membership Engagement Manager, Britannia, 13 September 2010)
4.2 Council Benefits

4.2.1 Board Performance

It was evident in the management interviews that rather than run the Council in complete ignorance to the main Britannia Board, the Council had been established to influence, inform and enhance debate at the highest level. This role was rarely identified by survey respondents but was a consistent theme in the interviews, as the Communications Director argued;

It’s difficult to understate how important it is for Council members to have that ability to build a relationship with two members of the Board and therefore have that direct input and direct influence into the conversations that were happening at Board level.

However, the Non-Executive Chair of the Council also felt this was a two way process and that individual board members had also gained from more insightful relationships. In particular, the opportunity to learn from and engage with both management and members was seen to be invaluable. This can be seen in the comments from this director, who stated;

I enjoy Council meetings thoroughly, I sit there and listen, sometimes I learn more about Britannia than I do at a Board meeting just because when (the CEO) gets into a dialogue with people, all sorts of things come out that might not come out at the Board meeting.
Similar sentiments were expressed by the Chief Executive, albeit from a different perspective;

If it (the Council) improves my knowledge base going into the Board and therefore changes things that I might otherwise say then it’s had an impact on the decisions that the Board have reached……it might not be formal governance, but it’s certainly having an impact.

Such benefits also extend to those executive and non-executive directors with less direct Council involvement. For example, as the Council has requested information on a range of topics, such as the role of non-executive directors, executive remuneration and risk management, other Board members with relevant experience have been invited to present to the Council and participate in subsequent question and answer sessions\textsuperscript{21}. This has the potential to improve their contribution to Board level discussions and to promote more robust debate and executive challenge. Such benefits are significant, as a collegiate board culture within the UK banking sector has been identified as an area in need of urgent reform (Walker, 2009).

Furthermore, interaction at Council meetings and other Society functions requires Board members to communicate their knowledge of the business in a manner that is both easily understood and accessible to ‘ordinary’ members. In the recent crisis in financial markets, where boards failed to understand the risks of certain products, (Walker, 2009; House of Commons, 2009) this added discipline would appear to hold much merit.

\textsuperscript{21} Britannia Members’ Council, \textit{Various Minutes 2002-2009}, Leek: Britannia Building Society
In essence, the Council can be seen to have provided a platform for the exchange of views and information between members and the Board that would be hard to replicate in a boardroom setting. Board members who attended Council meetings were not just rewarded with access to an informed member voice but also had the opportunity to learn more about developments within the business. In turn, board performance should be improved as directors are able to contribute more in board level discussions.

4.2.2 Member Voice

The Council can also be seen to have provided a much improved and equal voice for a select group of members. This role was widely recognised and supported amongst survey respondents, with comments such as this typical;

> Generally the Members’ Council acts as a ‘sounding board’. In this role I think it has proved useful in areas such as the merger with Co-operative Financial Services, how to deal with dormant accounts and helping to formulate ethical trading policy with suppliers.

There was also evidence that this voice extended beyond the quarterly meetings with management. This was evident in how Council members were able to enter a dialogue in other areas of the organisation. One such example was the Society’s AGM. Each year, Britannia issued a personal invitation to current Council members to attend the meeting in Staffordshire, meeting all reasonable travel and accommodation expenses. In the process, Council participants were encouraged to learn more about the Society’s formal democratic structure and use their knowledge of the business to put insightful questions to the Board. Hence at the 2007 AGM, one Council member raised a
question about the returns on child accounts, a topic that had also been pursued at Council meetings around that time\textsuperscript{22}. In another example, a Council member queried the sub-prime mortgage crisis in the United States and whether action had been taken to reduce the Society’s exposure to such products at a subsidiary business\textsuperscript{23}. Regardless of the response received, the important point here is that answers were placed on the record, with a wider member audience able to learn and benefit from Council questions. In doing so, debate and information gained within the Council can be seen to have informed and interacted with an important part of Britannia’s formal governance process.

The Council’s impact was also felt inside the Society with a number of Council alumni invited onto roles in various parts of the business. One former Council member was appointed as a Trustee of the Britannia Charitable Foundation, another sat on an internal Treating Customers Fairly (TCF) panel. Both innovations helped to project an informed member voice deeper within the organisation. Such initiatives can also be seen to have reduced those agency costs associated with asymmetrical information between managers and members.

However, survey responses also showed that some Council participants wanted this voice to assume a more formalised role. In a small number of responses, this translated into scepticism about the current model, as this response highlights;

\textsuperscript{22} Britannia Building Society, \textit{Annual General Meeting minutes}, 19\textsuperscript{th} April 2007: 4-5
\textsuperscript{23} Ibid.
… the Council would be strengthened if it had the power to vote and formally amend certain things (it must be carefully decided what these things are). At the moment the Council is too much of a talking shop or glorified focus group. Senior management treats it only as insightful and uses it for public relations rather than to help make decisions (which have usually already been made).

However, this was by no means the predominant view and the majority of respondents did not express a desire for more control over business decisions. This supports the management position, which argued the Council obtained its value precisely because it remained outside formal governance structures. There was also concern, expressed by the Non-Executive Director, that any increase in Council powers could undermine the critical relationship with the Britannia Board. This could ultimately threaten the future of the Council, as this director argued;

One of the things to do is to try to allow it (the Council) to breathe and live without being suffocated by the big democratic machinery. If the big democratic machine doesn’t like it, it may be hard to survive.

In order to avoid this tension, the role of the Council needs to be clearly communicated to and understood by Council members. There also needs to be an awareness of the benefits which derive from this type of dialogue over more formalised structures and an appreciation of Council achievements. However, as was noted earlier in the chapter (see Section 4.1.2), there is reason to doubt this. So despite the voice provided by this forum and its expansive reach, there does appear to have been some weakness in how
the Council is understood by members. This is a criticism that will be considered later in this chapter.

4.2.3 Managerial Decisions

In addition to board performance and the benefits to members, there was also seen to have been benefits for managers. Broad agreement existed within Britannia that it would be extremely difficult to link Council activity to quantifiable performance outputs. Instead, member panel success was linked to the management decision making process, a point made by the Chief Executive;

It’s impossible to put numbers on it, the fact that (after Council input)……we chose to go ahead with the Co-op merger, the fact that we chose to go ahead with an executive Long Term Incentive Plan, the fact that on environmental issues we listened very carefully to what people said - which was we want you to be environmentally strong but - we don’t want you to spend massive amounts of our money on it. These things are really strong guidance to the business, but I can’t say that we’ve earned ten basis points or a million pounds or something from having the Council. What I can say is that it has improved the overall decision making process.

In other words, the Council was not just seen to provide the owners of the business with a stronger voice or to improve board performance, it also provided senior management with the insight needed to perform their roles effectively. This was, as far as the Chief Executive was concerned, a source of competitive advantage for the business. The Communications Director provided one such example of this;
I do remember (the CEO) bringing executive pay, in particular the Long Term Incentive Plan (LTIP) that we introduced for senior employees a few years ago to the Council in advance of the Annual General Meeting that year. (The CEO) was absolutely clear that if the Council said ‘we don’t like this’, he would not then table it at the AGM. That was indicative of how influential the Council became and quite quickly.

This additional ‘sense check’ on proposed policies and decisions was valued precisely because of the informed and independent nature of the audience. This point was made by the Chief Executive, when pressed on the personal benefit obtained from Council participation;

……to be able to spend the whole day with members who’ve got that independence of thought, to be able to go in depth talking about stuff in a group of people, with twenty odd people at the same time is pretty unique because I can go out and talk to individual members, (but) very often individuals don’t have the strength, the confidence to put forward views in the way that a group of twenty four have. I suppose……a group of independent people who have good knowledge of the organisation is something that I would struggle to get elsewhere without putting a lot of effort in.

Furthermore, there is also evidence this knowledge provided for a more challenging audience for managers to convince than the wider membership. For example, whilst 86.2% of Britannia borrowers and 88.6% of Britannia investors voted in favour of the
merger with CFS\textsuperscript{24}, support from survey respondents was much lower at 70.3%. This suggests that Council endorsement of a particular proposal was a good indication to managers that the decision would also be acceptable to a majority of Britannia customers.

So a Council ‘sense check’ not only helped managers to better understand member needs but also reduced the implementation risks attached to a particular policy or proposal. Perhaps this explains why, according to the Communications Director, the Council had been so well received by decision makers within the business. Indeed, the Communications Director revealed that manager demand had been so high to present to the Council (and its successor, the CFS Customer Panel) that requests were routinely declined. This once again highlights the value seen to emanate from Council input into the decision process.

\textbf{4.2.4 The Mutual Advantage}

In earlier chapters, we have seen that one of the main justifications for member panels has been to better understand the needs of members and to communicate the mutual advantage. In the process, it was hoped that building societies would be better placed to defend their status against demutualisation. As the Non-Executive Director behind the Council explained;

When I joined the Board there was a debate about carpet bagging that was still going on and I thought that what the Society needed to do was to open its doors to some members and find out what they really thought, and in knowing what members thought, the Society would be able to act in their best interest, and in acting in their best interests there wouldn’t be a challenge to its mutual status. I thought it was a gap in their way of listening to members that needed to be filled.

The results from the member survey appear to give strong support to this position, with 77% of respondents satisfied that the Council had increased their awareness of the benefits attached to mutual ownership. The remainder (23%) held no opinion on this statement.

Furthermore, the survey results also indicate the Council improved the relationship between member participants and the Society. 93% agreed (45% strongly) that the Council had been a positive influence on how they viewed the business. Indeed, analysis of qualitative survey data revealed widespread appreciation at the efforts to be more transparent and open with members. In some cases this has been rewarded by a complete change in perception, as one survey respondent noted;

I previously considered Britannia to be remote, “cliquey”, for the benefit of senior managers and staff. Members’ Council involvement removed that opinion, brought Britannia strategies, policies, operations, into the open.
Interestingly, when the views of the Society and a Council participant were unable to be reconciled, participation in Council debate on issues appeared to help mollify certain criticism. This was evident in at least one response;

Sadly, I am of the opinion that Britannia is well intended but in many cases fails to deliver (this is of particular concern to me on ethical issues).

There is also evidence in both the interview and survey comments that the Council helped build trust between management and Council members. This was evident in several survey responses, such as;

I have great respect for (the CEO) who leads his team by example. Under his guidance I believe my investment in Britannia is in safe hands.

Some survey responses went even further and claimed that Council membership had led them to increase their investments and made them strong advocates of the Society. Others argued the experience had given them added confidence to recommend Britannia to friends and family. Such evidence carries added significance at a time when trust in financial service providers has been severely impacted by a crisis in world financial markets.

4.2.5 Personal Development

In addition to the benefits already highlighted, several of those interviewed at Britannia argued that participation in Council meetings had benefited the personal development of their managers. The Chief Executive, for example, was convinced that this opportunity to develop new and improved skills was a valuable one;
It’s ok me saying to them you should find out what members think, or you should find out what customers think and so on, but actually putting them in front of a group of members and being challenged and being asked to respond, they have no choice other than listen. They listen straight forwardly and I’m sure it helped their development.

This is supported by the comments of other interviewees, some of whom had presented to the Council in the past. One of those, the Communications Director, believed the experience had been beneficial to them. It was stated;

Perhaps I’ve not always been the best personally in receiving challenge and you have to learn to if you are going into a Council whose express job it is to challenge…..that has helped me personally.

Such benefits were also seen to extend to ordinary members on the Council. Indeed, the Chief Executive claimed to have been told as much by some members, arguing that;

I certainly know some who’ve told me that with the confidence gained from being on the Members’ Council, they have ended up in more senior positions in their companies, or applied for different roles that they wouldn’t otherwise have applied for because they’ve had the experience of working in the Council.
Such claims are difficult to substantiate and the survey responses proved inconclusive. In particular, when questioned on the perceived benefits from Members’ Council participation (see Figure 4.2), only a small number of respondents felt the Council boosted their career or self-confidence (15%). However, the two most highly rated benefits were the learning experience (89%) and the chance to have a say (70%), both of which contribute to personal development and could improve career progression. On balance, there is evidence that both managerial and member self development opportunities were important side benefits from this member panel – although evidence for the former is more conclusive.
4.3 Critique

Despite the five benefits just highlighted, it is possible to identify at least three significant weaknesses and criticisms levelled from the data. These are associated with problems around performance measurement, independence and organisational commitment.

4.3.1 Performance Measurement

As has been highlighted, one Council benefit is the potential for more informed management decisions within the business. Despite this, during the interview process it emerged that no evaluation process had ever been put in place to assess and document actual Council outputs. Yet without this, claims the Council had failed to influence managerial decisions – as expressed in a limited number of survey responses - are much harder to refute. There is also the risk that Council participants become demoralised, which could undermine the important relationship between the Council and Britannia Board.

This is likely to be a factor behind the high number of survey respondents that were unable to link the Council to an improvement in business performance. In total, 37% of respondents agreed the Council had made a positive contribution, but almost half (44%) were unable to state a view in either direction. Just under one fifth (19%) of respondents believed there had been no contribution at all. Such findings are consistent with the lower sense of achievement and control cited by survey respondents in Figure 4.2.
Of course, the main problem here is that Council discussions do not necessarily result in noticeable action. However, the Chief Executive was clear that this did not mean decisions had not been influenced by the Council;

If there had been very strong views…..I should take into account I think I always did do, a good example was the wish to improve the rates of interest on children’s accounts. The view was put forward and it was certainly put forward at the last Members’ Council meeting, which was why haven’t you changed the interest rates because we said we thought you should do. Well, the executive get paid to balance a whole range of interest rates and if you want to improve them on children’s accounts you’ve got to take it off something else. It wasn’t that the view was ignored; it was that on balance, no action was taken.

This was not seen to damage the Council either, as it was argued even at a board level, there are directors whose ideas or arguments are unsuccessful. This was the nature of democratic debate according to the Chief Executive, an argument supported by the Non-Executive Chair of the Council, who stated;

…..what’s important to me is the dialogue and the dialogue isn’t ducked, well its never ducked, members may not always feel that they aren’t getting the answer they want but the dialogue isn’t ducked.

However, the Chief Executive did concede that at times the management decision process could have been communicated better to the Council. Upon reflection it was felt that;
….sometimes we could have been smarter as management and particularly as Britannia Board members of actually feeding back to the Council, that we did hear what you said, we listened to what you had to say but we’ve taken no action for the following reasons. I think that’s where sometimes some of the members of the Council feel disenfranchised because they think they’ve raised a concern and it hasn’t been acted on whereas the reality is that it’s been listened to and deliberately no action’s been taken.

This dialogue can still have value to a business as it highlights the strength of opinion on an issue. However, right up to the merger with CFS (and beyond), no mechanism was in place to assess this. Yet it remains a live issue, not least because under the terms of the merger agreement, the new CFS Customer Panel is only guaranteed for a three year period. It will then require a decision to be taken on its future. If the CFS Board is to share in their Chief Executive’s enthusiasm for this panel, then a process to assess its value to the business will need to be put in place. It is, as earlier evidence has suggested (see Figure 4.2) also important for those who participate in the Council to appreciate their achievements and how the decision process has been influenced.
4.3.2 Council Independence

One further theme to emerge from the research was the need to protect Council independence. This was most evident in the disagreement between members and management on the appointment process used for the Council. Since 2002, appointments have been made jointly by the Membership Engagement Manager and Communications Director. In most cases, this process involved the completion of an application form and a short telephone interview with a member of staff. However, this process was a consistent concern in survey responses, even though opinion had not been explicitly canvassed on the issue. Typical survey responses included, ‘Personally I think it should become more democratic. Selection could be standardised’ whilst another believed ‘There has to be a way of improving how members are selected, although full balloting might be problematic & costly’. Such concerns are likely to have been heightened by management selecting Council alumni for other roles within the business.

Interviewees on the other hand argued a change in process could undermine the representative nature of the Council, one of its main strengths. It was also seen to help attract members who would otherwise be deterred by a more formal and democratic appointment process. However, this argument is undermined by the significant minority of respondents (41%) who were appointed with prior experience of some form of elected office. It also ignores the potential for an intermediate

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25 Survey data provided further evidence that elected structures may fail to represent the views of a wider electorate. For example, 75% of respondents disagreed (37% disagreed strongly) with the Co-operative Group’s links with the British Labour Party. Just 7% were in agreement. This would suggest that the near 3 million Britannia members who are now Co-operative Group members could challenge this historical link. However, more detailed analysis revealed that 50% of those Britannia members that had disagreed were also members of a co-operative at the time of the merger. This group also represented 77% of all co-operative members who responded to the survey.
solution, which could be seen as more independent and avoids the problems associated with elections.

However, the most powerful argument deployed against reform came from those who questioned whether it was even appropriate to have a formal appointment process at all. This was due to the Council’s position outside the Society’s governance structure, as the Non-Executive Director argued;

I don’t think it should be elected as it’s not appropriate to elect it. I don’t know that an independent person would do it better either. I’ve got no worries about the way it’s been done in the past. I think you’ve got to be always careful…..thinking it is part of governance, these people are not accountable to anyone and they come with their own views.

Britannia’s Chief Executive also cautioned against an independent and formalised process as this had never been raised as an issue in the past. It was also argued that as Board members were not involved in the selection process, an independent person or panel would simply add another layer, with no apparent need or weakness.

However, the survey data indicates this to be a bigger concern than has been admitted in the past. It may well be that this would need to have been revisited if Britannia had remained a building society. Indeed, under a co-operative business model that prides itself on the principle of democratic member ownership and control - it is perhaps just as important to consider the appointment process for the new Customer Panel at CFS. It may not even be the issue that some believe as this is surely one area where the involvement of Council alumni - on a new appointment panel - could be a solution.
4.3.3 Corporate Culture & Leadership

The final criticism of the Council was that it depends upon the enthusiasm and commitment of one person, the Chief Executive. It also requires a corporate culture that is willing to embrace the voice of its customers. In interviews, it was put to participants that this made the Council inherently weak and less sustainable, a point the Communications Director acknowledged was a risk;

I think it does reflect a corporate culture rather than just specifically one person’s view, but clearly (the current CEO) has been leading Britannia for most of the time the Council has been in place and has invested a lot of personal capital in making it a success. I’m absolutely certain that in different circumstances, if a different Chief Executive had regarded it as a burden and a chore, then the Council would have probably quite quickly withered on a vine.

There is no evidence that this has been an issue at Britannia but this has not yet been tested under new leadership. That said, there is every indication the model will be supported at CFS under the current Chief Executive and beyond. This was evident in their robust defence of member panels when asked if a successor would share this enthusiasm. The Chief Executive retorted;

I would seek to persuade my successor how much value I get out of it. If it’s any of my competitors then I think they’re missing out quite frankly. If they thought that a day per quarter plus preparation time was excessive I think they are making a bad mistake, but allowing your competitors to make mistakes is probably not a bad thing.
The Non-Executive Director was equally confident that as long as the Council added value to the business it could survive under alternative leadership.

The Council should make the leaders of the business more aware of what their customers think and if it doesn’t do that its failing, but it does do it and I know what (the CEO) and his team like is this different space where they come along and don’t have to meet deadlines or produce daily reports or make sure that governance is properly covered. They don’t have to do any of the normal things they do at a Board meeting, they just come and listen and converse. I am confident that they are getting immense benefit from that……otherwise they just wouldn’t do it.

4.4 Council Improvements

In addition to strengths, benefits and Council weaknesses, a wide range of suggestions were submitted on how to build on the Council’s legacy in CFS. Several alumni noted the potential to utilise former Council members more, either through inclusion in the occasional meeting or through local branches26. It was also suggested that edited reports of council meetings could be sent to those former members who would be interested. The use of exit interviews or questionnaires for retiring members was another point raised. There were also calls from one respondent to trial more weekend and evening meetings to help attract under represented members to the Council.

26 Since the survey was conducted, Britannia/CFS have announced the creation of a new open member panel to compliment their Customer Panel. It is intended that former Council and Panel members will be encouraged to participate in this additional member engagement mechanism, which could help address this point.
In addition, a number of survey respondents requested that additional information be made available to Council members in the period between meetings\textsuperscript{27}. This was something the Chief Executive also felt the current CFS Panel could develop and improve upon in the future. This was on top of the internal debate, highlighted earlier, that the Council could have met more often. It was also evident that at least one respondent saw the potential for more member activities at the hotel, the night before meetings. This could involve after dinner speakers or organised debates on a topical mutual subject. These suggestions were in addition to the limited number of survey respondents who wanted structural reforms to increase democratic accountability and member control.

Yet with all these suggestions care needs to be taken as Council members will have their own views on additional time commitments. The evidence so far is that Britannia have the balance about right, with 59\% of survey respondents in agreement that Council members have access to sufficient information to maximise their contribution. Just 15\% of respondents disagreed, although a further 26\% remained undecided. It is therefore important, particularly given the voluntary nature of the role, that future changes are introduced with the full support of participants themselves.

\textsuperscript{27} Coventry Building Society shares some board briefing papers with their Members’ Council between meetings. (Source: Letter from Phil Sawyer, Corporate Communications Manager, Coventry Building Society dated 22 April 2010)
5. CONCLUSION

In an earlier chapter, we reviewed the literature on member panels which claimed there would be an improvement in corporate governance. In essence, closed member panels were said to augment board accountability through repeated contact between directors and panel members. This contact was able to provide directors with a deeper insight into the needs of the owners of the business (BSA, 2010). Moreover, it was also claimed the mere existence of a panel could reinforce a mutual ethos, as managers became aware their decisions were open to challenge from members (BSA 2010: 13). During this research, such claims were largely supported.

5.1 Research Findings

The Britannia experience revealed the extent to which the involvement of a small and informed group of members can mitigate agency issues within a mutual firm. In the process, evidence was uncovered that its member panel had contributed to a general improvement in governance. It did so in partnership with, rather than in direct competition to more formal governance structures.

In order to achieve this, each of the main actors involved with the Council accrued some benefit from their participation. Britannia members gained a forum that provided a direct voice into the Board. Managers were also able to access an informed, independent and collective source of customer opinion. This was seen to have improved managerial decisions and their implementation. Finally, as the literature predicts, Britannia Board directors also obtained a deeper insight into member needs. Council participation also provided an opportunity to learn more about the business from management. Both benefits improved their knowledge base and
hence their contribution to Board level discussions. In each case, these benefits were assisted by a supportive leadership and organisational culture.

In addition, there was clear evidence that Council participation increased member awareness of mutuality and enhanced their view of Britannia. This was another clear objective for the Council when it was established. Interestingly, the Council was also able to engage other stakeholders in dialogue, as and when required. In this sense, it acted as a much broader platform for the exchange of views and information within the business.

Evidence also emerged to show the extent to which panel benefits were underpinned by structural factors. In the Britannia case, these were used to facilitate a dialogue between members, management and directors that was regular, direct and sustained over time. Panel design was also used to promote the representational nature of the Council, one of the main strengths associated with this model. This was combined with a strategy that valued member participation and sought to create an experience that was both varied and flexible enough to reward those involved. Such findings are significant, as this suggests member panels add most value when structured to promote similar objectives. If so, this also implies that other member panels in the sector may not be designed to deliver the same beneficial outcomes or to maximise the participant experience.

5.2 Recommendations

Whilst the evidence presented in this paper has supported the overall case for member panels, there was still felt to be scope to improve the panel model at Britannia.
In particular, a clear preference was expressed to safeguard Council independence through a more impartial and transparent recruitment process. This issue was raised as a frequent concern in member responses, although it was not identified as an issue in management and director interviews. Both sides would benefit from an intermediate solution. It is therefore recommended that a new appointment panel be established, with its membership drawn from the Council alumni network. This would replace a management led selection process with a member led one. It would also place fair and balanced representation at the heart of the recruitment process, an outcome that would be hard to achieve under a system of member elections. Furthermore, there is scope to improve how progress is monitored in this area as a panel would require more data to ensure its appointments were representative.

In addition to this, a robust and regular performance appraisal system – fed back to all participants – needs urgent consideration. This could improve the lower levels of achievement and control cited by Council members during this research (see Figure 4.2). It would also inform the decision that needs to be taken on the future on the CFS Panel in three years time.

Further measures to consider should also aim to improve the dialogue between Council meetings. For example, there is evidence that panel members at other Societies have access to certain Board papers. There is also potential for a new annual Council/CFS Panel meeting, with both past and present members invited. This has the potential to provide Council alumni with continued contact and involvement in the business. It would also provide a useful substitute for the Britannia AGM as no such process exists
within CFS. Instead, the business is included as part of the AGM for the entire Co-operative Group, and even then attendance is restricted.

On a final note, it is evident that each member panel in the sector continues to operate in isolation. This is despite the considerable scope to share and co-ordinate activities, training and best practice. This would be particularly beneficial to smaller Societies where the costs associated with a member panel may be perceived as too high. It is therefore recommended, as a first step, that the BSA should develop new training material to support members appointed to roles within financial mutuals. This could build upon existing BSA training already provided for directors and managers in the sector.

5.3 Research Limitations

It is recognised that limitations may well exist with this research. In particular, the number of interviews conducted at Britannia was low, with the result that the views expressed may not be representative. The results would have been strengthened had more managers and board directors participated during the data collection process. Furthermore, a higher response rate on the questionnaire would have improved validity and reduced potential bias in the results.

Such issues were considered during the research design phase but were ruled out due to the significant time and cost implications associated with interviews. In the case of the questionnaire, despite evidence that financial incentives can produce higher response rates (Wheelright, 2002), a limited budget meant pre-paid envelopes were used instead. Finally, the research author was a former Council member (see Section 3.3.2), which could have influenced responses and the interpretation placed on them.
However, steps were taken to mitigate this and the author chose not to complete a questionnaire to avoid claims of author bias (Collis & Hussey 2003: 169).

5.4 Research Directions
Future research should concentrate on testing for similar results at other member panels in the sector. There is also a need to establish what impact, if any, these panels have on the wider membership as well as on other potential stakeholders. It is clear that much would also be gained from a return to CFS in two or three years time. It would then be possible to evaluate how a member panel designed for use in the building society sector had fared under a co-operative governance model. This should provide a clearer indication as to whether such panels could be extended to other corporate forms and sectors.
Britannia Interview Schedule Questions:

- Why do you perceive a need for a body such as the Members’ Council?

- Has that need/role changed as a result of the merger with Co-operative Bank?

- Do you feel the Council has improved governance at Britannia, and if so, how?

- What do you believe motivated members to apply to join the Members’ Council? Do you expect the motivations to change post merger?

- What do you perceive to be the strengths and weaknesses of the Members’ Council? How would you like to see it developed in the future?

- How can the Council successfully adapt to the rapid growth of the business post merger and the greater divergence of member customer interests? (i.e.: insurance, savings, mortgage, depositors)

- What issues, if any, do you envisage with the Members’ Council operating under a co-operative model of governance? How could these be resolved?

- How has the Members’ Council contributed to the economic performance of Britannia as a business? Please highlight specific initiatives.
The aim of the questionnaire is to establish the key issues which you feel are important about the Members’ Council’s contribution to the financial performance of Britannia (now CFS).

- Please feel free to elaborate upon any particular questions in the space provided or on the reverse if necessary.
- It is anticipated that completion of the form should take no longer than 20 minutes.
- Once you have finished please take a minute to check you have answered all the questions fully.
- If you have any queries on the questionnaire please contact Phil Bale on 07813 441514 or email peoplecompliant@yahoo.co.uk
- In order to assist the evaluation process it would be helpful if completed forms could be returned by 30 November 2009 in the pre-addressed envelope provided. You do not need to add a stamp.

1. **Are you currently serving on the Members’ Council?**
   - Yes ☐
   - No ☐ If no, what year did you leave the Council? ____________

2. **What was your occupation during your time on the Members’ Council?**
   ________________________________

3. **How were you recruited to the Members’ Council?**
   - Britannia Website ☐
   - Britannia Branch ☐
   - Newspaper/Magazine ☐
   - Personal Recommendation ☐
   - Other ☐ Please specify ________________

4. **What benefits do you feel you have gained from the Members’ Council?**
   - Feeling More in Control ☐
   - Others Look Up to Me ☐
   - Valuable Learning Experience ☐
   - Help to Career ☐
   - Enjoyment ☐
   - Financial Reward ☐
   - Chance to Have My Say ☐
   - Own Problems Solved ☐
   - More Self-Confident ☐
   - Social Life ☐
   - Sense of Achievement ☐
   - None of the above ☐
   - None of the above ☐
   - Other benefit (please specify) ☐ ________________________________
5. Have you ever held a position in elected office prior to joining the Members’ Council? (i.e.: Councillor, Director, Trustee)
   Yes □ If yes, what role? ____________________________
   No □

6. What would you identify as your own personal achievements during your time on the Members’ Council?


7. What would you identify as the main achievements of the Members’ Council? If possible, please provide specific examples.


8. Which areas of the business do you feel most comfortable questioning senior management about through the Council?


9. Which areas of the business do you feel least comfortable questioning senior management about through the Council?


10. Council participants have access to sufficient company information to maximise their contribution at meetings? (please circle)
    Strongly -- Disagree -- Neither disagree -- Agree -- Strongly Disagree nor agree Agree
11. The Members’ Council has helped improve the economic performance of Britannia/CFS?

Strongly -- Disagree -- Neither disagree -- Agree -- Strongly
Disagree nor agree Agree

12. What are the strengths of the Members’ Council’s structure? What, if anything, would you suggest to improve it?


13. Did you apply for one of the seven Co-operative Group Regional Board seats available as part of the merger with Britannia?

Yes ☐

No ☐ If no, why not? _______________________________

14. Would you consider standing for election to an Area Committee of the Co-operative Group in the future?

Yes ☐

No ☐ If no, why not? _______________________________

15. Were you a member of a co-operative prior to the announcement of the Britannia merger with Co-operative Financial Services?

Yes ☐

No ☐

16. To what degree do you approve of the merger between Britannia Building Society and Co-operative Financial Services? (please circle)

Strongly -- Disagree -- Neither disagree -- Agree -- Strongly
Disagree nor agree Agree
17. What do you foresee as the key issues that will arise as a consequence of Britannia Building Society now operating under a tiered, elected member, co-operative model?

18. To what extent do you agree with the Co-operative Group’s links with the British Labour Party, through the Co-operative Party?

   Strongly -- Disagree -- Neither disagree -- Agree -- Strongly Agree
   Disagree nor agree

19. My involvement with the Members’ Council has had a positive impact on the way I view Britannia (please circle)

   Strongly -- Disagree -- Neither disagree -- Agree -- Strongly Agree
   Disagree nor agree

   Please explain why?

20. My experience on the Members’ Council has increased my awareness of the benefits of mutuality.

   Strongly -- Disagree -- Neither disagree -- Agree -- Strongly Agree
   Disagree nor agree

21. Finally, are you prepared to be interviewed in the future about your experience on the Members’ Council?

   Yes □ If yes, please provide an email address? ______________
   No □

Thank you for taking the time to complete this questionnaire!
To Council Member/Alumni

October 2009

Dear XXXX

Firstly I would like to confirm that I am back in post following my maternity leave. If you have any questions about the Members’/Customer Council, the former Britannia or Co-operative Financial Services I would be more than pleased to help and can be contacted on the number or email address below.

Secondly, I have enclosed a letter, questionnaire and pre-paid envelope from former Members’ Council member Phil Bale. Phil is using the Members’ Council as the subject matter for his dissertation and would like your input to help inform his work.

Whilst we are happy to support his continued interest in the Council – as we are with all Council members past and present - please be assured that your participation in his survey is completely voluntary.

Kindest regards,

XXXX XXXXXXXXXXX
Engagement Manager

Tel: XXXXXX XXXXXX
Email: XXXX.XXXXXXXXX@britannia.co.uk

Encs: Covering letter
Questionnaire
Pre-paid reply envelope
To Britannia Co-operative Group Regional Board Appointees:

I write to invite you to share your views on the Britannia/CFS Members’ Council.

I am a second year postgraduate student in Corporate Governance and Ethics at the University of London. As part of my studies, I would like to use the opportunity presented by my dissertation to focus upon the Members’ Council, using it as a case study on member participation in governance. The topic is of particular interest to me as a former Council member from 2005 until 2008.

I should first clarify from outset that my study would be for purely academic purposes and does not form part of any official project for Co-operative Financial Services (CFS) or the wider Co-operative Group. That said, CFS have been very supportive of the research aims and are providing invaluable support and assistance.

In addition to the completion of the enclosed questionnaire, you can assist in this research by indicating on the form whether you would be willing to participate in a future interview or focus group exercise. I will then contact those interested closer to the time to make the necessary arrangements. It is anticipated that any such exercise would take no more than 20 minutes. It is currently anticipated that any interviews would not be held until early next year, allowing time for you to settle into your new Regional Board roles.

The aim of the questionnaire and interviews is to capture any early thoughts you may hold on the contrasts between active member involvement in governance at Britannia Building Society and the Co-operative Group. Your contribution will be invaluable in understanding the business case for the Members’ Council and its future role within a co-operative business model. It is also an opportunity for you to highlight any other aspects you might consider relevant.

Participation in the research is voluntary and if you so wish, you may withdraw from the research at any time. As part of the university’s ethics requirements, I am required to protect your anonymity and to keep any information that can identify you, strictly confidential.

When my dissertation has been completed, a summary copy will be available at the university. If you are interested in receiving a copy, I would be happy to provide this to you upon request.

In the meantime, I would like to thank you in advance for supporting this project.

Kind Regards,

Phil Bale
Birkbeck College, London
To Britannia Members’ Council Members & Alumni:

I am writing to invite you to share your views on your involvement with the Britannia Members’ Council.

I am in my second year of a Masters Programme in Corporate Governance and Ethics at the University of London. As part of this course, I would like to use the opportunity of my dissertation to focus on the Members’ Council – using it as a case study on member participation in governance. The topic is of particular interest to me as I was part of the Members’ Council from 2005 until 2008.

I should clarify at this stage that my study would be for purely academic purposes and does not form part of any official project for Co-operative Financial Services (CFS) or the wider Co-operative Group. That said, CFS have been very supportive of the research aims and are providing invaluable assistance.

In addition to completing the enclosed questionnaire, I would very much like to undertake a number of short interviews with a selection of former and current Council members. It is anticipated that any interviews would take no more than 20 minutes. If you would be prepared to be interviewed please include this in the questionnaire and I will then contact you closer the time to make the necessary arrangements.

Your contribution will be invaluable in understanding the business case for the Members’ Council and its future role within a co-operative business model. It is also an opportunity for you to highlight any other aspects you might consider relevant.

Participation in the research is voluntary and if you so wish, you may withdraw from the research at any time. As part of the university’s ethics requirements, I am required to protect your anonymity and to keep any information that can identify you, strictly confidential.

When my dissertation has been completed, a summary copy will be available at the university. If you are interested in receiving a copy, I would be happy to provide this to you upon request.

In the meantime, I would like to thank you in advance for supporting this project.

Kind Regards,

Mr Phil Bale
Birkbeck College, London
**QUESTIONNAIRE RESULTS**

**SUMMARY**

**Response Rate:** 27/62 out of maximum 68 (44%)
6 Forms not sent: 1 Deceased, 4 Not contactable, 1 Researcher

**Q.4 What benefits do you feel you have gained from the Members’ Council?**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Count</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Feeling More in Control</td>
<td>3</td>
<td>11%</td>
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<tr>
<td>Valuable Learning Experience</td>
<td>24</td>
<td>89%</td>
</tr>
<tr>
<td>Enjoyment</td>
<td>16</td>
<td>59%</td>
</tr>
<tr>
<td>Chance to Have My Say</td>
<td>19</td>
<td>70%</td>
</tr>
<tr>
<td>More Self-Confident</td>
<td>4</td>
<td>15%</td>
</tr>
<tr>
<td>Sense of Achievement</td>
<td>10</td>
<td>37%</td>
</tr>
<tr>
<td>None of the above</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Others Look Up to Me</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Help to Career</td>
<td>4</td>
<td>15%</td>
</tr>
<tr>
<td>Financial Reward</td>
<td>4</td>
<td>15%</td>
</tr>
<tr>
<td>Own Problems Solved</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Social Life</td>
<td>11</td>
<td>41%</td>
</tr>
<tr>
<td>None of the above</td>
<td>12</td>
<td>44%</td>
</tr>
</tbody>
</table>

**Q.5 Have you ever held a position in elected office prior to joining the Members’ Council? (i.e.: Councillor, Director, Trustee)**

16 No 11 Yes 59% 41%

**Q.10 Council participants have access to sufficient company information to maximise their contribution at meetings?**

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>14.8%</td>
</tr>
<tr>
<td>Neutral</td>
<td>7</td>
<td>25.9%</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
<td>55.5%</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>1</td>
<td>3.7%</td>
</tr>
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</table>

**Q.11 The Members’ Council has helped improve the economic performance of Britannia/CFS?**

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>3.7%</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>14.8%</td>
</tr>
<tr>
<td>Neutral</td>
<td>12</td>
<td>44.4%</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>37%</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>
Q.12 What are the strengths of the Members’ Council’s structure? What, if anything, would you suggest to improve it?

CONFIDENTIAL

Q.13 Did you apply for one of the seven Co-operative Group Regional Board seats available as part of the merger with Britannia?

Yes 13 No 14 48% 52%

Q.14 Would you consider standing for election to an Area Committee of the Co-operative Group in the future?

Yes 14 No 13 52% 48%

Q.15 Were you a member of a co-operative prior to the announcement of the Britannia merger with Co-operative Financial Services?

Yes 13 No 12 52% 48%

Q.16 To what degree do you approve of the merger between Britannia Building Society and Co-operative Financial Services?

<table>
<thead>
<tr>
<th>Option</th>
<th>Count</th>
<th>Percentage</th>
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<td>7.4%</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>14.8%</td>
</tr>
<tr>
<td>Neutral</td>
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<td>7.4%</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
<td>44.4%</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>7</td>
<td>25.9%</td>
</tr>
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</table>

Q.17 What do you foresee as the key issues that will arise as a consequence of Britannia Building Society now operating under a tiered, elected member, co-operative model?

CONFIDENTIAL

Q.18 To what extent do you agree with the Co-operative Group’s links with the British Labour Party, through the Co-operative Party

<table>
<thead>
<tr>
<th>Option</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
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<td>Strongly Disagree</td>
<td>10</td>
<td>37%</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>37%</td>
</tr>
<tr>
<td>Neutral</td>
<td>5</td>
<td>18.5%</td>
</tr>
<tr>
<td>Agree</td>
<td>1</td>
<td>3.7%</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>1</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Q.19 My involvement with the Members’ Council has had a positive impact on the way I view Britannia

<table>
<thead>
<tr>
<th>Option</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>7.40%</td>
</tr>
<tr>
<td>Neutral</td>
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<td>0%</td>
</tr>
<tr>
<td>Agree</td>
<td>13</td>
<td>48.15%</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>12</td>
<td>44.44%</td>
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Q.19 Please explain why?

CONFIDENTIAL

Q.20 My experience on the Members’ Council has increased my awareness of the benefits of mutuality.

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
<th>Percentage</th>
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<tbody>
<tr>
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<tr>
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<td>0</td>
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</tr>
<tr>
<td>Neutral</td>
<td>6</td>
<td>23%</td>
</tr>
<tr>
<td>Agree</td>
<td>13</td>
<td>50%</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>7</td>
<td>27%</td>
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BIBLIOGRAPHY


Britannia Annual General Meeting, *Minutes from 19 April 2007*, Leek: Britannia Building Society


