

# Ownership matters

Organisational culture in  
building societies

Winter 2017

 **Building Societies  
Association**



# Foreword

If anyone doubted that ownership matters, then the recent history of the building society movement should be a salutary lesson. It was obvious in the 1980s and 1990s to all but the most purblind that the demutualisation of some of these great British institutions and turning them into straightforward PLCs, with no effort to protect their purpose and character, would change them for the worse. It would certainly enrich that particular generation of incumbent managers and savers who argued for it with great passion, but would denude the country in future of wise lenders along with their important culture. Moreover the new attitude towards high risk and short term reward would inevitably spark an over-rapid expansion of their balance sheets, creating an unsustainable house price boom and possibly even threaten the viability of the newly created PLCs.

So it proved. I argued this case as forcibly as I could at the time, but to little avail. Ownership, I argued then as now, matters. It matters because owners are the ultimate custodians of an organisation's purpose from which it derives its strategy, business model and culture. Substituting mutual ownership with a plethora of institutional shareholders, none of whom had any particular affiliation with the company's purpose but saw it as an asset class whose function was to maximize shareholder returns in the period ahead, was certain to transform how the new bank/building societies would behave.

Members would transmute into transactional customers to whom there was no particular loyalty. Staff would understand that what the business wanted above other priorities was shareholder return, with all that implied in terms of behaviors and degraded customer service. Mortgages and saving products alike would be priced to maximize margins rather than serve the interest of savers and house-buyers. All the incentives would be to expand balance sheets to the limits of acceptable risk, for which the managers of the demutualised societies were singularly ill-equipped to assess. Northern Rock and HBOS were the all-to-be-expected consequences.

The survey results in this report underline how differentiated the culture of the building societies that did not demutualise is – and how important that is to their role in British society. Building society staff think customers get 37% of the benefits and wider society gets 6%. The control group of 'other workers' surveyed to provide a benchmark thought that only 13% of the benefits of a PLC went to customers and 3% to the wider society. A stunning 36%, they thought, went to shareholders and external

investors. Charities and companies that were partially owned by their workforces scored better – but could still not rival the standing of building societies.

Building societies possess this very precious asset of trust, underlining the importance of how a corporate form – mutuality – translates into values and the warp and woof of the business model. However it makes salutary reading for PLCs, reflecting the growing and worrying distrust with which business is held by workforces – and indeed the wider public.

This does not mean that the public limited quoted company is condemned not to be trusted, but it does mean, as we argue on the Big Innovation Centre's Purposeful Company Task force that I co chair, that the wider ecosystem – ranging from company law and reporting to the way shares are held and managed by asset management firms – needs to be friendlier to those companies that want to pursue purpose explicitly. This is a long haul, which will require a lot of change in multiple areas, but in some respects, the case is made easier by the experience of thoughtless demutualisation and the esteem with which the building society movement is currently held. Ownership matters because purpose matters. It's a proposition that should be more widely shared.

---

## Will Hutton

Chair of the Big Innovation Centre and Principal of Hertford College, University of Oxford

---



# Introduction

Ten years from the start of the financial crisis much has been written about the organisational culture of banks and other financial services institutions and the role that culture played then and today.

A former bank Chief Executive once described culture as how employees behave “when no one is watching”, the truth of which in his own organisation came back to haunt him. However, are other factors at play in establishing the culture of an organisation? Just what is culture?

At its most basic, organisational culture is about the values, beliefs, attitudes and behaviours that employees share and use on a daily basis at work. It is what drives decisions and actions, affects customer experience, and ultimately the overall performance of an organisation.

Many factors are involved in establishing the culture of an organisation, not least the approach and behaviours of the Board and executive team, coupled with the relevant regulatory and governance framework. We believe that the ownership structure of a business is also fundamental.

Along with a number of other mutuals, building societies are owned by their customers; specifically those who save with or borrow from them; these people become members of their society as a result. Societies also have a broader social purpose, bound up in the provision of a safe place offering value to savers and helping individuals and families own their own home.

Exploring culture in building societies, we wanted to find out more about the impact that the ownership structure has on culture as seen through the eyes of employees. Do building society employees know and understand what working in a customer-owned organisation means? What difference does it make to their working environment, behaviour and approach to customers and the broader range of stakeholders who benefit from the business?

We surveyed over 2,400 employees across the building society sector. Separately, we commissioned YouGov to ask the same questions of workers employed in PLCs, charities, the public sector and privately owned businesses.

The results show that ownership has a significant impact on organisational culture. No single ownership structure is universally better, but they are clearly different in terms of the culture that is generated. The research highlights the value of actively nurturing a diversity of business ownership structures across the UK. The BSA is clearly primarily interested in financial services, but the same could equally apply in other business sectors.



---

**Robin Fieth**  
Chief Executive,  
Building Societies Association

---



# Who are you working for?

Organisations create value when their activities convert resources including raw materials, staff skills, technology and information into goods and services, but who ultimately receives the value that has been created?

We asked people working for building societies to estimate the percentage of the value or benefit created by their Society that went to different stakeholder groups. Separately, independent survey company YouGov asked people working for other types of organisation the same question in relation to their employer.

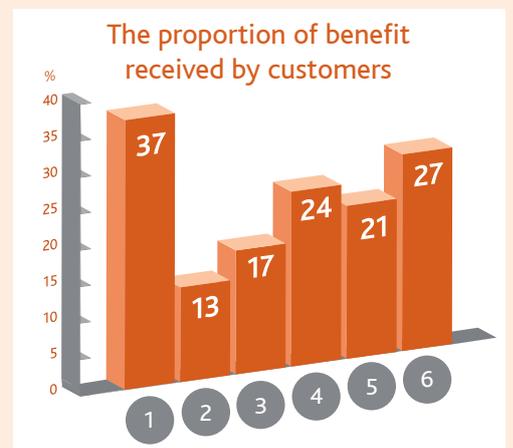
These surveys give the perspective of employees, so the results are a measure of perception not a financial calculation. However, the results do show the groups for whom employees believe their organisations create value. This indicator is insightful as it points towards potential differences in organisational culture across various types of ownership.

## Customers

The customer-ownership of building societies is reflected clearly in these results. The proportion of benefit seen to be received by customers / members was highest amongst building society employees.

This contrasts for example with private sector companies where the employee surveyed is not an owner and far less benefit is perceived to go to customers.

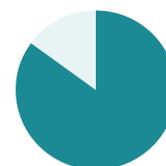
- Graph Key
- 1 Building society employees
  - 2 Public listed company
  - 3 Privately owned company (which I don't own any part of)
  - 4 Privately owned company (which I own in full or part)
  - 5 Public sector (e.g. NHS, police, government etc.)
  - 6 Charity / Not For Profit



The concept of customer-ownership is well understood among building society employees.

**85%** agreed that they would feel confident explaining the ownership structure to a customer.

And this ownership structure is reflected in the groups that these employees believe receive the value created by a building society's activities.



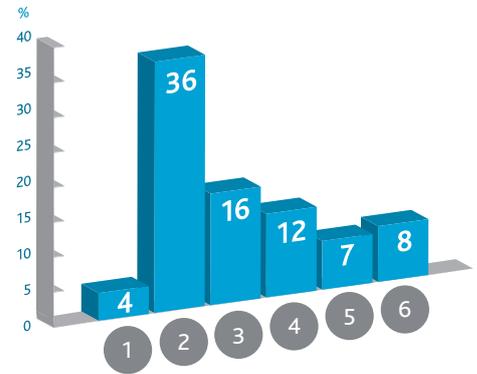
## Shareholders

The employees of publicly listed companies unsurprisingly see shareholders as the main beneficiary of the value created by their firm. Shareholders are the primary source of capital and owners of PLCs.

Conversely, building societies tend to raise little or no capital externally. Instead, the significant majority of building society capital comes from retained profit.

- Graph Key
- 1 Building society employees
  - 2 Public listed company
  - 3 Privately owned company (which I don't own any part of)
  - 4 Privately owned company (which I own in full or part)
  - 5 Public sector (e.g. NHS, police, government etc.)
  - 6 Charity / Not For Profit

The proportion of benefit received by shareholders or external investors



"The fact that employees believe the respective owners of their firms are the most important stakeholder group has a huge bearing on which values and beliefs are the most important in the culture of their organisation."

"The main focus to our training and ethics is to put the customer first, and try to find a solution to the customer needs even if ultimately it's not with us. Working the way we do gives a relaxed and calm atmosphere to the workplace. If our prime objective was to maximise profits the office would be a lot more stressed."

Loughborough Building Society employee

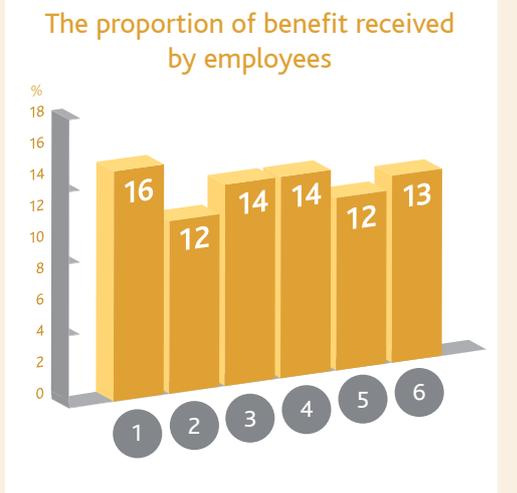
We asked building society employees how they thought their job might be different if their society was owned by shareholders rather than customers. Some of their responses are quoted throughout this paper.

## Employees

It is entirely reasonable that a proportion of the value created by an organisation goes to its employees.

This was the only stakeholder group where the proportion of value received was relatively equal for the employees working across all the different sectors.

- Graph Key**
- 1 Building society employees
  - 2 Public listed company
  - 3 Privately owned company (which I don't own any part of)
  - 4 Privately owned company (which I own in full or part)
  - 5 Public sector (e.g. NHS, police, government etc.)
  - 6 Charity / Not For Profit



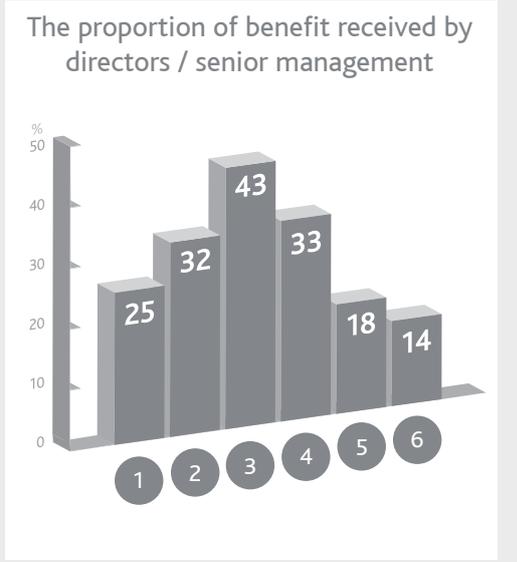
## Directors and senior managers

Across all types of organisation, employees perceive that directors and senior management receive a substantial share of the value created.

These perceptions probably reflect that employees, irrespective of the ownership structure of the firm that employs them, view the higher pay of directors and senior managers relative to their own.

Outside the public and not for profit sectors it is only building society employees that see far more benefit going to customers / members than to directors and senior managers.

- Graph Key**
- 1 Building society employees
  - 2 Public listed company
  - 3 Privately owned company (which I don't own any part of)
  - 4 Privately owned company (which I own in full or part)
  - 5 Public sector (e.g. NHS, police, government etc.)
  - 6 Charity / Not For Profit



"I feel that, whilst being commercially minded, it is more about the service we offer our members. If, like banks, we had shareholders I feel the environment would be very different and would be more about product selling to maximise income whilst reducing costs."

Hanley Economic Building Society employee



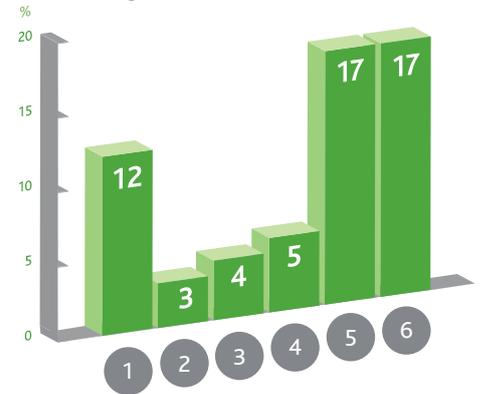
## Local communities

The links with local communities may vary by the size and spread of an organisation as well as its ownership structure and approach.

Building societies tend to be close to the communities where they operate. Their savers in particular tend to come from these communities, aligning ownership and local interests.

- Graph Key**
- 1 Building society employees
  - 2 Public listed company
  - 3 Privately owned company (which I don't own any part of)
  - 4 Privately owned company (which I own in full or part)
  - 5 Public sector (e.g. NHS, police, government etc.)
  - 6 Charity / Not For Profit

The proportion of benefit received by local communities



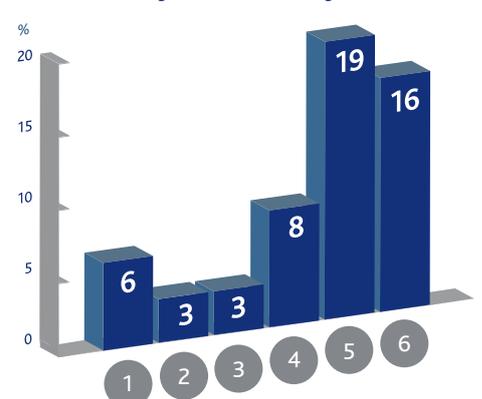
## Wider society

Wider society receives the greatest benefit from the operation of the public and charitable sectors, as might be expected.

These figures, coupled with the results for local community suggest these are the primary stakeholder beneficiaries from these sectors.

- Graph Key**
- 1 Building society employees
  - 2 Public listed company
  - 3 Privately owned company (which I don't own any part of)
  - 4 Privately owned company (which I own in full or part)
  - 5 Public sector (e.g. NHS, police, government etc.)
  - 6 Charity / Not For Profit

The proportion of benefit received by wider society



These results demonstrate the importance of ownership to the distribution of value. In each sector, the owners are the top ranking stakeholder group: customers / members at mutual building societies, shareholders at PLCs, directors at private limited companies, a combination of community and wider society at charities and in the public sector.

The fact that employees believe the respective owners of their firms are the most important stakeholder group has a huge bearing on which values and beliefs are the most important in the culture of their organisation.

# Ownership and values - customers

The previous section showed that building society employees understand the importance of customers / members in their work.

It is how and indeed whether this understanding of ownership translates into business values, that will determine how staff behave, and customers are treated, day by day.

In exploring the organisational values to include in the research we looked at websites and annual reports, pulling out some of the most commonly stated organisational values claimed across the building society sector. Very similar customer-centric value statements are also common from other types of organisation, although their specific values may differ by sector.

Value statements relating to the treatment of customers include:



The survey (overleaf) shows that building society employees largely agree that these values are demonstrated in their society's interactions with customers. The closest results come from private companies, owned in full or part by the respondent. These individuals include sole traders, partners and the directors of limited companies.

# Ownership and values - employees

The way that employees feel that their employer treats them, is another key determinant of internal culture. Commonly stated values relating to the working environment are that it is:

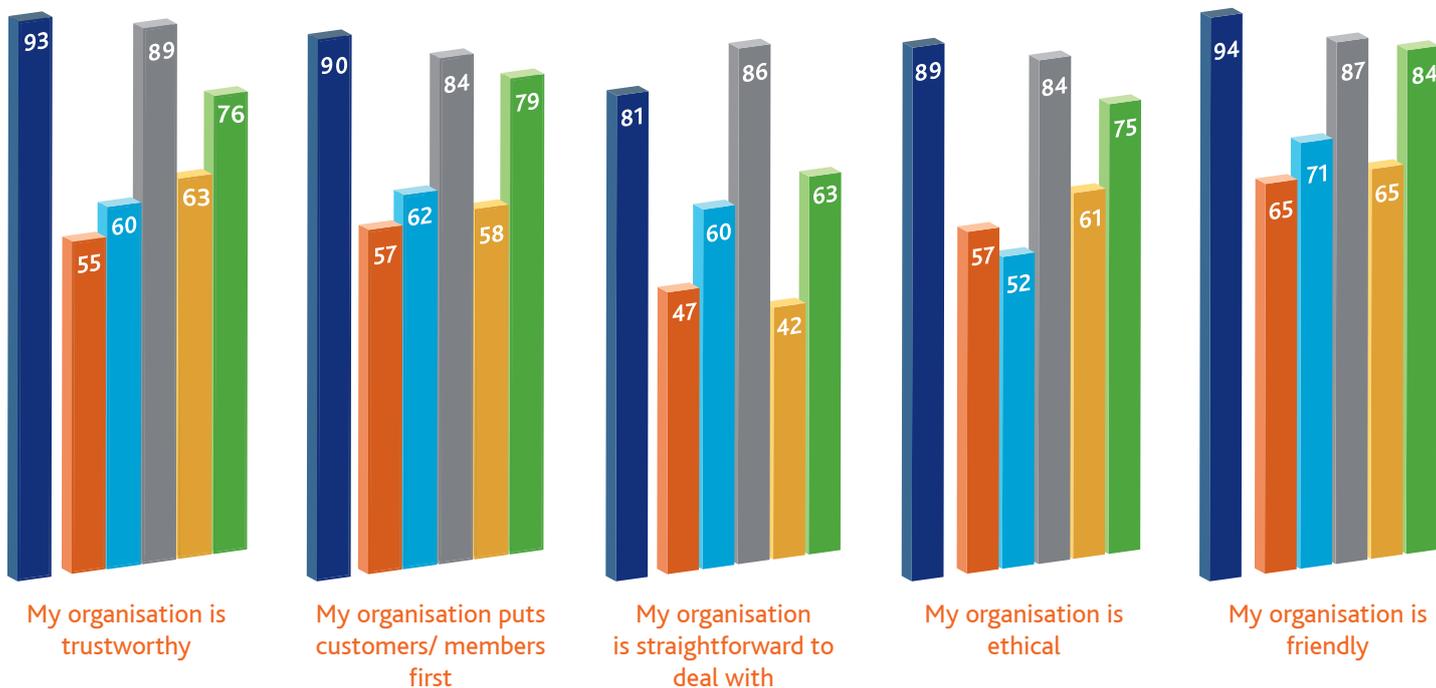


The survey shows that building society employees generally agree that their employer applies these values. By contrast, other groups of workers surveyed by YouGov clearly do not see these values nearly as evident in their workplace. Again, the closest results come from private companies, owned in full or part by the respondent.

The BSA asked building society employees, and YouGov asked respondents to its Omnibus survey who were in work, to what extent they agreed or disagreed that each of the stated values applied to the organisation where they worked.

### Customer treatment

% of employees who strongly agree or tend to agree that the value applies



■ Building Societies

surveyed by BSA

■ Publicly listed company (owned by shareholders)

surveyed by YouGov

■ Privately owned company (which I don't own any part of)

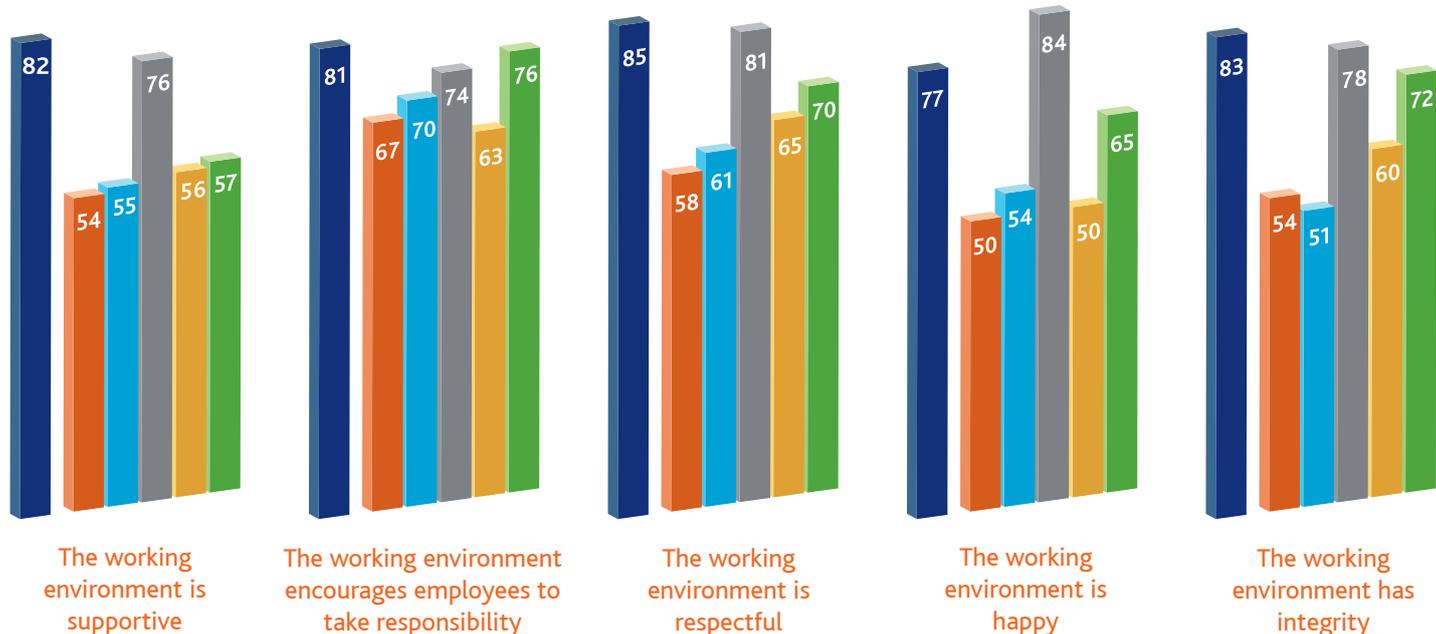
■ Privately owned company (which I own in full or part)

■ Public sector (e.g. NHS, police, government etc.)

■ Charity/Not For Profit

### Working environment

% of employees who strongly agree or tend to agree that the value applies



# The character of building societies

We asked building society employees to describe the organisation where they worked in three words.

The words most commonly used were *friendly*, *trustworthy* and *supportive*.



"The risk appetite of the Society would be higher if it had shareholders who wanted to maximise profits. Therefore my approach would be very different as it may mean some risks are more accepted rather than controlled in new commercial ventures."

Chorley Building Society employee



# Conclusion

---

These surveys demonstrate that member-ownership has a fundamental effect on the organisational culture at building societies.

Building society employees have a deep understanding of the ownership structure. Indeed, the verbatim responses highlight the widespread enthusiasm and passion for the values of mutuality. A number of respondents went as far as saying that if their society were to change and ownership shift from members to external shareholders they would not want to work there.

The survey findings help to explain how and why the ownership structure of building societies shapes the organisational culture of the 44 diverse societies in the sector. It leads to employees putting the interests of their customers, who are also their members, first. In many ways, building societies are fortunate that there is no conflict of interest between customers and owners given they are generally the same.

As a result, member-ownership and the organisational culture it drives can lead to significant differences in consumer outcomes. These often include higher standards of service and conduct, more sustainable, lower risk approaches to doing business, and often better value in relation to interest rates<sup>1</sup>.

Organisational culture is, however, live and constant and no one can ever claim that their work is done. Indeed while it is encouraging to see a good match between the values espoused by employers and employees in our sector, culture is a live issue with building society boards. They are mindful of the need to constantly support and develop the appropriate culture among employees.

---

"We have a strong emphasis on our customers and rewarding loyalty. This would not be our priority if we were maximising profits for external shareholders."

Progressive Building Society employee

---



---

"Having worked previously for a large building society, which became a bank and then a much larger bank, I found the change on my working life incredible over the years, in many ways. I could not live with myself in that job and left to join YBS. I was really pleased to be working for a mutual once again the difference is incredible. We are always making sure we do the right thing by our members and customers."

Yorkshire Building Society employee

---



<sup>1</sup>See <https://www.bsa.org.uk/information/consumer-factsheets/the-difference>

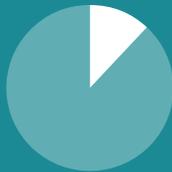
## PLC employees think



Customers get

**13%**

of the value created by a plc



Shareholders get

**36%**

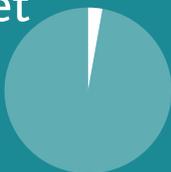
of the value created by a plc



Local communities get

**3%**

of the value created by a plc



## Building society employees think



Customers get

**37%**

of the value created by a building society



Shareholders get

**4%**

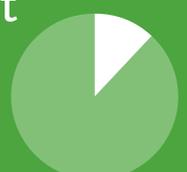
of the value created by a building society



Local communities get

**12%**

of the value created by a building society



"I have worked previously for a PLC. Despite the 'customer first' claim that all organisations make it's not the most important thing at a PLC - it is the profit margin. At a PLC customers are the means of gaining profit, not your purpose in being at work."

Nationwide Building Society employee



## Methodology

The BSA asked the following question to building society employees, while YouGov asked it to all respondents to its Omnibus survey who were in work, and who had first identified which type of organisation or sector they worked in:

"For the following question, by 'benefits', we mean; value for customers, shareholder dividends, salaries, charitable payments, taxation or any other value derived from the operation of the organisation you work for.

We would like you to allocate 100 points between the groups below, giving the group that receives the most 'benefits' generated by the organisation receiving the largest proportion of the points, and the group that receives the least 'benefits' generated by the organisation receiving the smallest proportion of the points."

The results show the mean score for each possible beneficiary by organisation type.

The BSA research is based 2,412 survey respondents, employed by 28 building societies. The research was carried out online between 20 June 2017 and 21 August 2017.

In the survey carried out by YouGov, the total sample size was 2,027 adults, of whom 1,100 were working. The YouGov fieldwork was undertaken between 21 and 24 July 2017. The survey was carried out online. Respondents who were working were asked to identify which type of firm or sector they worked in: 131 worked for publicly listed companies; 340 worked for privately owned companies (of which they did not own any part); 87 worked for privately owned companies (which they owned in full or in part), 355 worked for the public sector and 84 worked for charities.



York House  
23 Kingsway  
London WC2B 6UJ

020 7520 5900  
 @BSABuildingSocs  
[www.bsa.org.uk](http://www.bsa.org.uk)

BSA EU Transparency Register No: 924933110421-64

[www.bsa.org.uk](http://www.bsa.org.uk)

The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £375 billion, and account for approximately 20% of both the UK mortgage and savings markets.