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Strategic alliances and competitive edge: Insights from Spanish and UK banking histories

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Abstract

This research assesses the success of collaboration agreements through changes in competitive strength rather than the longevity of the transactions or the formality and visible structure of the agreements. To establish competitive strength, as development and renewal of capabilities, the research proceeds through a review of the alliance between the Co-operative Permanent Building Society, the Co-operative Wholesale Society, Scottish Co-operative Wholesale Society and Co-operative Insurance Society (1943-65). This co-operative agreement gives insights into the strategy of non-banks and non-finance participants aiming to enter British bank markets. The research also considers the rather different process at Spanish savings banks with a particular focus on information technology outsourcing (1977-95). Cases in the UK and Spain form an historical argument and are used to demonstrate how the implementation of strategy is as important as strategic visioning to achieve competitive advantage in bank markets.

Keywords: Banks, Corporate Strategy, Networks.

I

In the literature, regulation has been viewed as mitigating competition as well as hindering the adoption of technological innovation[1]. Regulatory innovations that developed into barriers to entry into markets for financial services in general and commercial banking in particular, can be traced back to bank charters in the late 18th century. However, it was not until 1960 when concerns were raised regarding the design of an optimal banking structure that, responding to a ruling of the Supreme Court, US government agencies had to consider the anti-trust effects of mergers in banking[2]. More recently, after a period of intense regulatory change during the 1970s and 1980s, the potential for fraud, money laundering and systemic failure imposed supervision, regulation and minimum capital requirement as prerequisites on those willing or able to participate in bank markets[3].

In spite of considerable interest in the analysis of methods to ascertain an optimal structure for banking, Alton Gilbert's[4] landmark compilation warned that an assessment of the effects regulatory change has had in determining bank performance was conspicuously absent from the analysis of structure-conduct-performance in banking. It was not until recently that an important number of contributions thoroughly debated the economic role of market competition, its benefits and its workings in financial mediation[5]. This article contributes to research into the effects of regulation on performance in bank markets by looking into how and why collaboration between non-bank financial competitors emerges in the context of changed competition (as reflected by distinct competitive environments in Spain and the UK).

External change (such as regulatory innovations and technological progress) can modify competition in bank markets. There are several potential strategic responses of actual and potential participants in banking to external innovations and competitive collaboration is one of them. However, competitive collaboration, as undertaken by participants in banking during the second half of the 20th century, seems to be an under-researched organisational form[6]. Moreover, practitioner and academic research on inter-firm co-operation has predominately focused attention on cross-border growth of banking institutions while excluding the assessment of collaboration amongst banks, non-bank and non-financial intermediaries with the potential of contesting domestic bank markets[7].

Some contributions to management literature suggest there is a wide spectrum of organisational forms adopted by collaborators[8]. What is distinctive about the incentives to engage in competitive collaboration explored in this study, is the focus on the relative success of implementing strategic vision through co-operation. The evolution of two integration episodes in retail banking helps to assess the success of collaboration agreements through the development and renewal of capabilities as measured by changes in competitive strength rather than the longevity of the transactions or the formality and visible structure of agreements[9]. For instance, through collaboration strategies and outsourcing, alliance members can achieve capabilities that as a group allow them to challenge banks in the provision of retail finance[10]. As independent companies the absolute investment and information barriers would have made risks of entry far more of a deterrent.

The discussion, therefore, reviews bank capabilities in terms of their advantage relative to complex (alliance) competition as well as relative to direct competition. Risk management skills and participants' willingness to develop sunk (administrative) capabilities emerge as two of the key areas mitigating competitiveness. As a result, the stance taken throughout the research to evaluate collaboration sees competitive co-operation as an essentially tactical element.

Results for this research into the formation and evolution of inter-firm collaboration in banking, suggest that collaboration allowed participants in Spanish and UK banking to internalise competencies and learn from their associates, while co-operation was aimed at overcoming regulatory and environmental restrictions to market penetration. Research results thus advance the literature on organisational alliances and collaboration in general, by suggesting a link between strategic visioning and forces instigating collaboration amongst actual and potential participants in bank markets.

The research also suggests a link between collaboration agreements and the relative success of implementing related and semi-related diversification in bank markets. Collaboration is of interest to managers working in competitive but otherwise geographically segmented markets, such as the UK retail financial services market in the post war period, as a cost-effective alternative to implementing geographic diversification prior to per capita income rising. In particular, this contribution depicts the evolution of an early attempt at a collaboration agreement in UK retail finance. The review of collaboration has, on the one hand, the Co-operative Permanent Building Society (CPBS). On the other hand, the Co-operative Insurance Society (CIS) and both the Scottish Co-operative Wholesale Society and the Co-operative Wholesale Society (CWS). This alliance allows insights into the strategy of a non-bank and a non-financial participant aiming to enter bank markets. This alliance illustrates how mutual financial intermediaries found a promising growth opportunity in the relatively stable UK bank markets of the post war recovery years, markets that were characterised by little regulatory change or technological innovation. However, the opportunity discovered by CPBS and CWS managers was lost because of poor execution.

In what follows, the research explores competitive collaboration by taking the view that the only (relevant) costs to enter a market are those known to be sunk and which become exit barriers[11]. From the ‘contestable market’ perspective the degree of competition diminishes through means other than those facilitating collusion or reducing the number of independent participants. Competitive pressures are lower to the extent that known sunk costs reduce the threat of out-of-market participants entering the market. Strategic orientation is important for anticipating competitive advantage, including withstanding environmental turbulence unexpectedly turning idiosyncratic investments into exit barriers. This second theme is explored through the establishment and performance of the Confederation of Spanish Savings Banks (CECA), which was established in 1927. CECA comprised a group of financial intermediaries that for over 50 years had had their business potential and diversification opportunities (in bank markets) limited by regulation. However, economic growth in Spain during the 1980s, domestic regulatory change and the adoption of information and telecommunication technologies (IT) permitted these mutual financial intermediaries to successfully diversify in Spanish bank markets. The analysis considers how some growth opportunities were siezed by managers of CECA and how some others were created by managers of Spanish savings banks. These actions resulted in a high sustainability of competitive advantage for the whole alliance.

The article proceeds, first, by interweaving analytical categories with contextual events in the UK and Spain. Hence, section two identifies the roots of mutual financial organisations in the UK and Spain. Section three summarises the structure of mutual financial services in Spain and section four that of the UK. The article then considers associations that emerged out of strategies of competitive collaboration. Section five describes the establishment of the

CPBS-CWS Alliance (1943-65), while section six assesses that co-operative agreement, in light of the strategic intent of non-bank and non-finance participants aiming to enter British bank markets. In section seven the article considers the rather different process at Spanish savings banks, while section eight focuses on IT outsourcing (1977-95). Section nine is the final section and discusses the evolution potential of outsourcing in financial services, its impact on integration and collaboration, and whether alliances by banks were successful in deterring threats from non-bank and non-finance intermediaries. The analysis also considers why an alliance solution provides a successful response to changes in regulation and economic environment for only one of the collaboration agreements.

II

Given the lack of widely-accepted definitions of co-operative activity, the discussion of inter-firm co-operation risks floundering because of the failure to specify the exact form of collaboration[12]. Inter-firm relations take many forms and serve many purposes. Hence, it is useful to identify which part of the value chain is the focus of the agreement. Also, it is worth establishing whether there is (tacit or implicit) co-operation for direct involvement as measured by equity in joint ventures or the appointment of liaison managers[13].

Firms engage in competitive collaboration through strategic alliances, outsourcing agreements, product licensing, co-operative research and an extended range of 'rights' (including rights to sell or buy). Such strategies allow partners in the transaction to achieve critical scale in a competency, distribution capability or markets currently out of their reach[14]. According to this view, the main value of competitive collaboration for individual organisations is co-operation turning into a form of inter-partner learning[15]. There is an evolutionary context to this view because learning implies adaptation and change, and indeed an important analytical stream has focused on the evolution of collaboration. In other words, the evolution of inter-firm co-operation is viewed in the broad sense of the life cycle of a product or service, that is, as a notion of transformation over time and adaptation to contextual and environmental contingencies.

This article reports on research into competitive collaboration between banks and non-banks as well as between banks, non-banks and non-financial organisations aiming to contest bank markets. It was conducted through an historical evaluation of associations in two different competitive environments and provides an international comparison. An historical analysis of collaboration enabled the assessment of organisational transformation from the inception of collaborators in the market to the eventual success or failure of the agreement. The financial service organisations, which are the topic of this article, were originally established as independent providers but all were guided by a common principle. This unifying concept dates to 1810 when the first 'savings' bank was established in Ruthwell, Scotland[16].

From the outset savings banks were retail finance institutions organised as mutuals: owned by depositors and generally operated through democratic guidelines. Savings banks sought to create thrifty habits amongst small and medium-sized savers like craftsmen, house servants or the growing proletariat, that is, outside the banks' target market[17]. In the first half of the 19th century, bank-runs or bank collapses were common, so mutual savings banks had no safe outlet for deposits. To create trust among potential depositors and as a matter of policy, funds from 1817 onwards were invested in government bonds or deposited at the Bank of England[18].

Savings banks paying interest on deposits (at a rate ranging from three to five per cent per annum) proliferated. The number of successful institutions in the UK grew until it reached 645 in 1861[19]. Market diversification started as some of these banks made advances to local authorities, but the Savings Bank Act of 1891 expressly prohibited this practice. It was not until the mid-1960s that savings banks were allowed to issue current accounts, undertake the payment of utility bills, and safeguard securities and valuables, because throughout most of the 19th and 20th centuries deposits at savings banks were used to finance government debt[20].

In 1872 The Co-operative Wholesale Society (CWS) formed a Loan and Deposit Department. This marked another stage in the growth of a democratically-based social movement that sought to counteract the market power of conventionally financed organisations. This philosophy was summarised as '...early co-operators were insistent that capital should become an "employee" of the Movement, not a master'[21].

That aim restricted the type of financial operations in which the CWS could engage and therefore limited the growth in the business portfolio of CWS's financial subsidiaries while bounding their geographic diversification to the British Isles. Legal restrictions also existed but in 1876 an amendment to the Industrial and Provident Societies Act revoked the ban on registered co-operatives owning banks. The CWS Loan and Deposit Department was registered as a subsidiary and renamed the CWS Bank. The purpose of the bank was to finance both wholesale activities and capital requirements for the CWS and its retail members. Unlike the pattern in Continental Europe, the CWS Bank remained the only co-operative full service financial institution in the UK, with building societies operating as mutuals and dealing primarily in financing home acquisitions.

Other European countries adopted the Scottish model early on. This type of savings bank was popular in countries with traditional Protestant values of self-help, where the ideas of Jeremy Bentham (1748-1832) and Thomas R. Malthus (1776-1834) were particularly influential[22]. Such was not the case in Portugal and Spain where savings banks started rather late (1836 and 1839, respectively) and followed the French model (established in 1818).

Unlike the Scottish savings banks, French-style savings banks created an initial fund to cover set-up costs and unexpected losses through donations and setting up a charity. After this the banks became autonomous with a governing board of six to 20 principals (working *pro bono*) holding responsibility for the strategic direction and overall affairs of the banks[23]. Both in Portugal and Spain the most common source of the set-up fund was the local 'Mount of Piety'.

'Mount of Piety' is a literal translation from 'Monte de Piedad' or 'Pío Monte' because no colloquial term was found to describe this Franciscan charity institution[24]. Formed in the 15th century in Italy, their aim was to eradicate usury through low- or non-interest paying loans. Advances were made against some kind of collateral in pawn (typically, jewellery or real estate). Initial capital was raised through charitable donantions and then, following its original Thomist Philosophy, the Mounts would only finance short-term needs. The 'Mount of Piety' is a different organisational form from the so-called 'Montepío', which appeared during the second half of the 18th century[25]. The 'Montepío' was a mutual, agnostic, and government controlled institution established by craftsmen or lesser standing professionals to care for members' needs when disabled or rehabilitating. They operated under a Patron Saint and in a church or monastery but without any religious obligation (and many had an ephemeral life).

Like their counterparts in Scotland and France, Spanish savings banks initially placed excess deposits at a government owned institution (Caja General de Consignaciones, 1835-68). This portfolio strategy, however, was short lived due to the poor quality of government bonds in the 18th and 19th centuries. Instead, Spanish savings banks ('cajas de ahorro' or 'cajas') increasingly used deposits exclusively to finance the activities of the 'Mount of Piety'.

In short, since the 19th century mutual financial organisations have been participants in UK and Spanish bank markets. There was little opportunity or indeed incentives for collaboration during the initial stages of development of these intermediaries. However, throughout the 20th century a potentially wide spectrum of organisational forms could be adopted between mutual financial organisations with in- and out-of market participants and competitive collaboration was one of these organisational forms. In what follows the research assesses the likelihood that actual or potential participants in bank markets engage in any or all of these potential organisational forms of competitive collaboration. The discussion develops the notion that the strategic success of collaboration is based on the transformation over time of established participants in bank markets and their adaptation to contextual and environmental contingencies.

III

Understanding the interaction between formation and longevity of collaboration is particularly important because evolutionary processes are sensitive to the initial conditions in which collaboration emerges and takes on its organisational form. Yves L. Doz has looked at the evolutionary rationale in depth and explored the effect of initial conditions on the learning processes (rather than on the outcomes)[26]. In particular he addressed the importance of the initial conditions in creating progressive patterns of learning as well as adaptation.

In this article, evidence from building societies and non-bank intermediaries in the UK shows how collaboration offered the potential for each to supply services previously out of their scope in the context of sequences of interactive cycles of learning, valuation and adjustment. The historical UK example gives insights into how mutual financial intermediaries found a promising growth opportunity in relatively stable bank markets; markets that were characterised by little regulatory change or technological innovation. However, the opportunity identified by CPBS and CWS managers was lost because of poor execution. Research in this article thus supports the idea that patterns of learning are rooted in how cognitive-individual learning evolves into behavioural-organisational learning. Initial conditions may foster or block both types of learning and how learning processes are reviewed themselves (learning to learn) by individuals and the organisation itself.

At the same time, evidence from Spanish banking illustrates how competitive collaboration transformed shared experiences, allowed the implementation of opportunistic strategies and in turn, the creation of critical mass to effectively contest bank markets. The relative success of the 'cajas' (i.e. savings banks) entering Spanish bank markets is summarised in Table 1, which depicts the growth in the number and relative importance of savings banks in Spain. Most early-established cajas were found in the biggest urban centres, and grew in financial strength through retained surpluses. By the turn of the century most assets were held in the savings banks located in seaports and industrial cities. At the same time and responding to widespread bankruptcies in 1853 and 1869, the activities of the cajas in financial markets were limited because the Spanish government introduced legislation restricting savings banks' activities[27].

Increasing financial strength was particularly evident from 1851 to 1895. During this period the pawn or emergency loan operations of the Mounts of Piety no longer absorbed all deposits from the savings bank. As a result the cajas began making short-term advances and issuing mortgages directly to the public[28].

After the turn of the century the number of Spanish savings banks tripled although no major change in regulation policy or the banks' business portfolio occurred. Most of these new cajas were established in the countryside under the auspices of the syndicalist and co-operativist movements[29]. After the first world war, the Spanish government enacted tighter bank regulation and also created a banking cartel (more below). Legislation in 1926, 1929 and 1933 brought an end to the cajas' charitable nature and turned their profits into the main source of funds to finance the provision of social welfare and agricultural projects[30].

Table 1: Growth of Spanish Savings Banks, 1839-1995

	Total number of savings banks	*Total number of banks in CECA**	*Total deposits in CECA (pesetas millions)*	*Deposits in CECA as per cent of total deposits in Spain (pesetas)*

Year				
1839	1	N/A	N/A	N/A
1874	53	N/A	17	N/A
1890	53	N/A	98	N/A
1901	59	N/A	146	N/A
1920	178	N/A	687	N/A
1927	151	74	1,440	N/A
1940	166	98	3,384	N/A
1950	78	78	13,979	N/A
1960	82	82	74,266	24.5%
1965	86	86	205,039	26.2%
1970	87	87	538,850	31.2%
1975	88	88	1,514,585	31.3%
1980	79	79	3,743,693	31.6%
1985	77	77	9,127,809	34.0%
1990	57	57	19,791,800	38.6%
1995	50	50	31,074,000	42.3%

* Spanish Confederation of Savings Banks or Confederación Española de Cajas de Ahorro

Sources: F. Ros Pérez, Las cajas de ahorros en España: Evolución y regimen jurídico (Murcia, 1996), pp. 122-3 and 138-9; J. J. Toribio Dávila, 'Tradición y modernidad en las cajas de ahorro', Papeles de Economía Española, Vol. 46 (1991), p. 23; Confederación Española de Cajas de Ahorro Las Cajas de Ahorro en el Entorno Actual, 72th General Assembly (Madrid, 1996), p. 50; author.

Between 1921 and 1939, most savings banks remained local institutions but the biggest cajas started to expand within their province and across adjacent areas[31]. In the course of the first quarter of the century competition increased for the cajas from two sources[32]. First, government-owned banks were established. Secondly, private banks developed national branch networks by capitalising on greater balance-sheet strength.

By the beginning of the Spanish Civil War (1936-9), private banks dominated financial markets. They were organised by their underlying group (called Consejo Superior Bancario) and supervised by the Bank of Spain and ultimately, by the Finance Ministry.

The Franco regime (1939-75), reaffirmed the pre-eminence of private banks within the Spanish financial system and, as illustrated in Table 2, introduced regulation that handicapped traditional savings banks. Table 2 considers how supervision of the cajas transferred from the Ministry of the Interior to the Bank of Spain. Table 2 also summarises other forces mitigating direct competition in savings bank markets as well as Spanish savings banks entering other financial markets. The summary in Table 2 gives equal weighting to all barriers to entry and suggests two periods of intense regulatory change for the cajas. The first was the years after the Civil War and prior to the Economic Stabilisation Plan (particularly 1951-7). The second period of intense regulatory change is somewhat longer and seems to be located around the transition to democracy and Spain's accession to the European Union (particularly 1974-87).

Table 2: Regulatory Constrains on the Activities of the 'Cajas', 1921-97

Supervision of Savings Banks	
Home Office (1921-6)	Finance Ministry (1935-71)
Ministry of Commerce (1927-56)	Bank of Spain (1971-97)
Regulation Limiting Competition and Diversification	
Fixed percentage of deposits invested to be in government debt (1926-92)	Finance Ministry fixes interest rates and commission charges (1943-89)
Special registry to acquire charter as financial institution (1929-97)	Ban on cross-regional retail branch growth (1946-64 and 1974-87)
Provision for minimum expenditure of social charter (1933-79).	Total ban on new savings banks (1946-64 and 1975-94)
Provision for minimum accrual of capital and reserves (1933-85).	Government encourages mergers of commercial banks and regional amalgamation of savings banks (1975-87)
Ban on FX and international trade transactions (1933-77)	Loans and own-social-charter expenditure limited to regional scope (1977-87)
Government control of diversification in loan portfolio (1933-89)	Freedom to set interest rates for assets and liabilities with less than 1 year maturity (1977)
Government stimulates growth of the savings banks' retail branch network (1939-63)	Freedom to set interest rate levels on liabilities with more than 6 month maturity and total freedom to set interest rates on assets (1982)
Ban on cross regional amalgamation of savings banks (1939-88)	Second Banking Directive comes into effect in Spain (1994)
Economic and Political Milestones	
Cartel of commercial banks (1921-38 and 1946-94)	Banking mini-reform (1974)
Private banks begin retail bank branch expansion to achieve national exposure (1923)	Fuentes Quintana reform (1977)
Economic Stabilisation Plan (1959)	Spain joins the European Community (1985)

Sources: F. Ros Pérez, Las cajas de ahorros en España: Evolución y regimen jurídico (Murcia, 1996), pp. 122-3 and 138-9; Biblioteca del Banco de España; author.

The context of the first of the episodes of regulatory change for the cajas was characterised by the intensification of regulatory burdens and marked by the overwhelming majority of new cajas, that were established between 1939 and 1977, being set-up by local and central governments[33]. The Franco regime continued implementing a practice developed during the 1920s called the 'principle of territoriality', meaning that the business of the savings banks was restricted to their province. This principle remained an informal arrangement until it was enacted into law in 1964. At the same time, the increasing asset base of the cajas prompted the Finance Ministry to start regulating the sources and applications of their funds. As a result, the Finance Ministry directed a growing proportion of the assets of cajas to finance public debentures and private banks' short term liabilities[34], with the added result that the policy significantly reduced funds available for agricultural projects and other traditional lending activities[35].

The context of the second regulatory change for the cajas dates to the last stage of the Franco regime, when attempts were made to ease the regulatory burden on Spanish savings banks (particularly in 1962 and 1964). Nonetheless, until 1974 the cajas remained outside the Spanish clearing house system and had access to only a restricted business portfolio. However, under the 'Fuentes Quintana Reform' (1977), the competitive environments for savings and private banks started to converge. The reform gave savings banks strong incentives to modernise their infrastructure and develop new skills[36]. In 1977, for example, the Bank of Spain authorised the first ATMs for the cajas[37] and by 1996, their combined network had 14,169 machines or in a wider context, was the biggest network in Spain and the third largest in the world[38].

The case of the Spanish savings banks thus suggested that collaboration in markets with a handful of participants can enable those with fewer resources and capabilities to absorb market intelligence without disrupting competitive equilibria. Furthermore, this study offers details on how a Spanish 'central' savings bank was instrumental for savings banks contesting markets traditionally dominated by commercial banks.

Research results thus support the idea that competitive collaboration can enable the creation of inter-organisational processes and procedures to distribute otherwise inaccessible information. The development and transformation of competitive capabilities of one or all of the partners, therefore, should be seen as the appropriate indicator for successful collaboration[39]. However, the intensity of competition could remain unchanged unless opportunities opened by collaboration are implemented successfully. This theme is further explored in this study by the failure of the CWS and Scottish CWS to transform the capabilities of its subsidiaries in UK retail finance, link with the CPBS and, as a result, become the first 'one stop' financial conglomerate in the world.

In summary, the evolving nature of competitive collaboration and any form of inter-organisational dynamics is the motivation for analysing cases with an historical perspective. An historical view of an economic problem requires interweaving conceptual structures with contextual events and identifying how and why transitions appear. In this sense the research that follows aims to bring the history back to the concepts using as evidence comparative historical cases in Spain and the UK. Rather than providing an explanatory hypothesis to a problem, it aims to show how and why those business practices emerged in their respective contexts and explain their outcome in the light of conceptual tools.

IV

There are alternative ways to explore the formation and evolution of competitive collaboration. For instance, one approach involves assessing whether participants have clear goals and shared expectations[40]. Fuzzy objectives prevent designing adequate risk/reward agreements while asymmetric expectations of the various participants result in varying levels of commitment, that is a participant's willingness to develop idiosyncratic resources. Other views are interested in the extent to which collaboration will complement pre-collaboration activities, operate to the disadvantage of other collaboration agreements and limit the agreement to original signatories[41]. Yet other views aim to assess whether co-operation is a pro-active (i.e. offensive) or reactive (i.e. defensive) response to uncertainty and environmental turbulence[42].

Alongside these alternative ways of exploring the formation and evolution of competitive collaboration, an overarching framework to assess inter-firm co-operation can develop under two complementary approaches[43]. First is a transactional view based on the degree of integration of firms, a continuous scale from market interaction to full vertical integration that places collaboration as a form of arms-length integration. A second approach is based on commitment, which emphasises the degree of mutual interdependence between the parties involved in an alliance. These views together allow a structured definition of the formation of competitive collaboration agreements and the organisational form they are likely to adopt, as well as offering a consistent reference point from which to study the evolution and longevity of collaboration agreements.

Equally important to the degree of integration and commitment in 'dyadic relationships' (i.e. that which is unique to two organisations), is identifying the identity of individuals as well as the pattern of ties and social connections around co-operation agreements[44]. The use of collaboration to overcome uncertainty seems more likely to take place in relationships in which organisations (or individuals) are already embedded. This as opposed to an atomistic notion depicting collaboration as emerging from random events between totally unrelated organisations.

Hence, a chronicle of the evolution of other mutual financial institutions in the UK and which were linked to the Co-operative Movement should also consider four other institutions that emerged alongside the CWS Bank. Together these organisations fashion the portfolio of business in financial markets under the auspices of the UK's Co-operative Movement. In 1876, the first other financial organisation in the UK's Co-operative Movement was established in Newcastle-upon-Tyne. The purpose of the Industrial Bank was supporting an engine factory adjacent to the Tyne but both the bank and the factory failed shortly after[45].

The second institution was the Southern Co-operative Permanent Building Society (CPBS), which was founded in February 1884. The 'Southern' prefix was removed ten years afterwards. The purpose of this London-based society was to enhance the working and living conditions of members. More importantly, the aim was to enable co-operators who wished to form a society to buy their own premises[46]. The CPBS required deposits to make advances and small loans to members of retail societies but the Co-operative Congress refused to give full backing to another financial institution developing alongside the CWS Bank. Nevertheless, many leading and rank and file members of the Co-operative Movement joined and some even decided to become agents of the CPBS (either personally or through their retail societies). The CWS Bank fought hard to retain its position as the first choice for co-operative societies seeking funds. So the CPBS sought business elsewhere, notably amongst the railway employees[47]. The CPBS effectively acted as a mutual building society, alongside the Co-operative Movement, but without formally belonging to it.

A third financial institution developed by the Co-operative Movement was an insurance arm. Insurance activities dated to 1867, each focusing on specific types of risk such as health or lost-at-sea cargo. In 1898, the Co-operative Congress extended internal rules so the CWS could undertake all insurance, except life assurance[48]. In October 1913 the Co-operative Insurance Society (CIS) was formed to operate as a jointly-owned department of the CWS and the Scottish CWS. Life assurance started in 1904 and by 1927 together with fire, motor and general insurance, life assurance represented the biggest sources of premium income[49].

By the turn of the century, assets at the CWS Bank and CIS had grown with the Co-operative Movement and both institutions had developed considerable numbers of agents amongst co-operative retailers. The bank did not enjoy clearing status and found day to day transactions cumbersome. Because of this, and in spite of the CWS Bank having developed personal business in savings accounts, personal business was not generally emphasised[50]. Meanwhile, the business portfolio grew outside treasury operations for the CWS and retail co-operative societies. In 1912 the Northumberland Miners' Association was the first union to join the bank. After the second world war, the corporate portfolio received significant business from local governments (benefiting from links with the Labour Party). This encouraged the bank to extend its services by opening branches in Newcastle and London[51].

Around this time a second banking department developed within the Co-operative Movement. In December 1946, three years after managers of the Scottish CWS had taken over a small bank in Edinburgh called the People's Bank[52], the Scottish CWS entered the banking business. Managers of the Scottish CWS were responding to criticisms that they had failed to develop a banking arm but also to make the most of term deposits from retail societies, which had grown from just under ten million in 1936 to £18.4m in 1945. As with its English counterpart, the Scottish bank did not enjoy clearing status but this time the Co-operative Movement and managers of the CWS "offered no objection" to another financial institution developing alongside the CWS Bank[53]. During the post-war period and until its demise in 1973, the SCWS Bank stayed away from personal business and primarily invested in government securities.

Meanwhile, the business portfolio of CPBS (as that of most building societies) was limited to financing mortgages to build personal and industrial dwellings[54]. The CPBS developed a well established personal business supplied from its London office, while its agency network grew throughout the North of England. By developing personal business the CPBS avoided being involved in the misfortunes of those building societies that were closely associated with financing industrial properties.

At the same time, the CPBS, which up to 1920 had generally conducted business from a single branch in the bottom floor of the head office building, matched the branch expansion process of many other building societies [55]. The adoption of telephone communications allowed institutions to manage their treasury and multi-branch operations, as they were excluded from money transmission transactions by lack of access to the clearing process. National branch networks for building societies were created more slowly and more organically than for banks, whose networks were created by the amalgamation process that swept British financial intermediation at the end of the 19th century. Indeed, the first building society to develop a network of branches was the Halifax in 1937, followed by Abbey National and the Woolwich in 1948 while CPBS came fourth in 1952[56].

Building societies then had to establish correspondent agreements with clearing banks since the chief method of transferring money within Britain came to consist of the transfer of bank deposits through written instructions on debtor banks. In other words, cheques predominated over the use of coins, bank notes or bills of exchange[57].

Despite the growth of branches, the CPBS's financial management left much to be desired and it often required emergency loans from the CWS Bank[58]. By the end of the 1920s these problems were brought under control and growth renewed as branches were used as ‘small’ savings banks. Branches attracted personal savings accounts and these provided funding for the much needed short-term liquid resources[59]. In 1929, CPBS became the eighth largest building society in Britain, with nine and half million sterling in total assets[60]. Asset growth continued as rent controls on private dwellings restricted the supply of rental properties and, thus, encouraged owner occupancies. During the 1930s, the Society had 12 branches in England and Scotland as well as an extensive agency network in the retail co-operative movement[61].

In 1939, the CPBS merged with the Wellingborough Investment Building Society and the merger increased the branch network to 35 offices[62]. In subsequent years the CPBS continued its expansion by amalgamation but was able to acquire only 11 small-sized societies[63]. As a result of acquisitions and organic geographic expansion, the CPBS increased its scale and reduced the volatility of its business portfolio and both abilities to compete promised to deliver bigger and more stable returns.

Because the CWS had built up strong capital reserves in the recovery years that followed the Great Depression, the CWS had a number of growth options. To some people, growth in the business portfolio suggested the CWS could emerge as the 'first conglomerate'[64]. That is, a firm controlling diverse businesses that were horizontally and vertically integrated such as finance and tea production or coffee grinding and its retail distribution through co-operative societies. The CWS's options for growth emerged as improved trading results and growing membership placed the Co-operative Movement and the CWS as the biggest retailing group in Britain with extensive holdings in the production and processing of the goods they sold[65]. From 1941 and with increasing frequency from 1943, the CWS began to use excess capital to diversify and a major area of investment was housing development finance[66].

In summary, evidence offered in this article illustrates how, through collaboration, firms expect to avoid unnecessary investments, enhance the allocation of scarce financial resources, gain time to improve their productive efficiency and quality control, and acquire their partners' skills and market characteristics. Indeed, empirical-inductive evidence[67] suggests that co-operation and alliances are a transitional step for further interaction between otherwise independent organisations, that could lead to integrated forms of management and certainly to the internalisation of partner skills.

Collaboration agreements are unlikely to emerge from random allocation of resources. Ongoing relationships between firms and amongst individuals, that is social networks, are likely to influence the choice of partners, the nature and purpose of the agreement, as well as the contents of information flowing through that agreement. This would suggest that the social structure in which firms are embedded can limit organisational perceptions of the likely opportunistic behaviour by partners and, as a result, organisations may be willing to engage in non-recoverable investments, which can enhance the performance of the agreement[68] and change competitive intensity. The research thus illustrates exchanges and discussions within groups of organisations and individuals who have a history, and whose history results in establishing routines and stable links amongst members.

Collaboration strategies can reduce entry barriers and improve market competition but to date disagreement prevails as to whether collaboration strategies deliver sustainable competitive advantage. Some are sceptical that networks of independent organisations can articulate long-term management of interdependence[69]. Others argue that collaboration strategies reflect changes in competitive tactics because they can effectively increase market competition through increased entry threats[70]. Throughout these perspectives, however, possibilities that environmental turbulence creates sunk (i.e. irrecoverable) organisational costs and deters entry have often been ignored. Barriers to exit may develop *ex-post* as firms enter into particular agreements[71]. For instance, the possibility of environmental turbulence in the UK developing into sunk organisational costs, helps to explain why the Co-operative Wholesale Society (CWS) failed to commit to a collaboration agreement with a building society and thus, CWS abandoned opportunities to diversify in UK retail bank markets. At the same time, the strength of the Spanish savings banks through CECA deterred the entry to their traditional markets of commercial banks until the late 1980s. Spanish cajas were thus willing to invest in developing CECA partly because of regulatory constrains but also partly because of competitive reasons.

Cases in this article, namely CWS's potential diversification and Spanish savings banks successfully contesting commercial bank markets, highlight how seldom the discussion around competitive collaboration considers whether co-operation responds to opportunistic diversification strategies that pursue income growth rather than enhancement of core capabilities. Documented evidence in this study thus offers cases of strategic visioning but failed implementation in the UK. Whereas cases in Spanish banking document opportunistic but otherwise successful collaboration, which moved forward on flexible organisational structures (escaping the budgetary rigour associated with the pursuit of strategic intent).

V

During the second world war, the number of building societies fell from 960 to 890 and the CPBS was at the forefront of merger activity[72]. During the war, property values increased since half a million homes were destroyed or made unfit, while the number of families had actually grown[73]. As early as 1941 directors of the CPBS were concerned about how best to participate in the reconstruction effort in a practical way and agreed to explore the issue further. Initially CPBS directors approached peers throughout the building society movement but in 1942 the Board decided to strengthen relations with the Co-operative Movement. In 1943 formal communications entailed with the CWS and the Scottish CWS, for them and the CPBS to enter discussions in response to expected changes in property values and aiming to[74]:

- Develop business in the housing market for private occupancy (including plans in which house purchase could consider hire purchase of movable furniture);
- Encourage more housing societies within the co-operative movement; and
- Provide a range of loan producing insurance (through CWS's wholly owned insurance subsidiary) as well as other expenditure associated with housing and equipment.

The CWS's ambitions in financial services were then reflected in the application by the CWS Bank for membership of the Committee of London Clearing Banks[75]. The application was refused on grounds not publicly disclosed but the CWS Bank was formally admitted in 1975.

For the CPBS the offer to collaborate provided unique access to the Co-operative Movement with its ten million strong community of producers and consumers[76]. In return, the CPBS expected to generate (an undisclosed) potential of business referrals for the CWS and Scottish CWS[77]. However, the real attractiveness of this potential market depended on the ability to take advantage of the special relationship.

At the time, both the English and Scottish Wholesale societies had accumulated reserves (generated by term-deposits of retail societies) of £18.5m and £105m respectively. Simultaneously and as part of a proposed plan for amalgamation between the Wholesale societies, both had drafted (independently of each other) a five year plan. Both plans coincided in identifying a need to finance private housing during the post-war period[78]. The Wholesale societies were also keen to grow into geographical areas or markets (such as travel, motor trade, funeral furnishing, hire purchase of dry goods and the production and distribution of shoes) not yet serviced by individual co-operative societies and housing offered potential synergies with existing businesses. At the same time, the CWS Bank had offered mortgage loans to local authorities as early as 1931[79], and as a result CWS' managers were well aware that in housing they needed to give:

> 'special consideration to the probable powers to be given to local authorities and the probable control of future activities [by] building societies'[80].

For the CWS and Scottish CWS, the CPBS deal also offered an alternative to setting up a separate 'Society' exclusively dedicated to dealing with house purchase. Their decision was clearly influenced by the attractiveness of CPBS's offer as well as by repeated interaction, within the canvas of the Co-operative Movement, of the directors as individuals rather than as officers of the three organisations.

The deal was formalised when, as a result of the official meetings, the CPBS modified its rules in 1944. For the first time in its history, CPBS appointed three representatives of the CWS and one of the Scottish CWS onto its management board[81]. The CWS then advanced £100,000 sterling on term deposit to the CPBS, while directors of the latter sets aside up to five million sterling for mortgage lending to support the development of housing societies[82]. The CPBS also nominated a sub-committee of directors, initially called 'Housing Development' and later renamed 'Co-operative Liaison'. This was a forum where representatives of the CPBS, CWS and Scottish CWS could exchange ideas and submit suggestions to each Board about the nature of plans to move forward with the provision of housing throughout the UK.

Surprisingly the CWS was against the alliance with the CPBS to create a dedicated organisation for centralised purchasing of furniture, household equipment, maintenance, repair and decoration services[83]. Perhaps this was a response to Scottish co-operators and the powerful London Society rejecting the proposed amalgamation of the Wholesale societies. Another influence of limited interaction between committees and financial transactions seems to have been changing the procurement role of the CWS from being a 'seller to' to a 'buyer for' retail societies until 1965[84]. In any event, lurking at the back of the relation between the hundreds of individual societies and the two Wholesalers was a fear that the interest of the latter might take power from the retailers.

The CWS rejection did not stop the CPBS from dedicating financial and organisational resources to the alliance. For instance, the Chairman and the President of CPBS sought and found (outside of the building society) a suitable individual that would '… establish a more effective liaison with the Co-operative Movement'[85]. Between 1944 and 1952, the CPBS sponsored a number of surveys on the housing market by the 'Co-operative Liaison Person', results which were always shared with the CWS and Scottish CWS.

As mentioned, the success of collaboration between the CPBS and the Wholesale societies relied on capitalising on the loyalty in each party's members to capture a group of customers with great potential for cross-selling opportunities. Both institutions believed that they had huge potential for customer retention (i.e. loyalty). As summarised in Table 3, this belief was based on the co-operative dividend cash payment (1845-1968) and the effects of the interest rate system on the mortgage market (1939-84).

Table 3: Sources of Customer Loyalty in the CWS-CPBS Alliance, 1943-1965

Name (Duration)	"Co-op Divi" (1845-1968)	Mortgage Interest Rate Cartel (1939-84)
Source	Membership scheme where customers participated in the retailer's financial margin.	Entry barrier into mortgage market.
Aim	Implement a core principle (i.e. the first consumer oriented organisation).	Protecting societies from the consequences of extreme competition given excess supply of long-term funds and low interest rates.
Management	• 'Pass book' (1845-1967) • Trading stamps (1968-77) • Plastic (1997-date)	Recommended rates through the Building Societies Association (1939).
Rewards	Participants could benefit from low prices, access facilities financed by past generations of 'co-operators', and receive quarterly dividend payments.	Patronage of a single institution by savers resulted in priority for the allocation of mortgage funds.
Loss of effectiveness	Inflation and cost of managing the paper-based system. New technology allows resurrecting the 'divi' but only 10 years after other major retailers had successfully introduced loyalty cards and schemes.	The Chancellor of the Exchequer threatened to review the cartel in the light of the Restrictive Trades Practices Act.

Sources: W. Richardson, The CWS in War and Peace 1938-1976 (Manchester, 1977), p. 339; G. Davies, Building Societies and their Branches (London, 1981), p. 76; T.J. Gough, The Building Society Industry in Transition (London, 1982), p. 23; M. Boléat, The Building Society Industry (2nd ed. 1986), p.175; J. Birchall, Co-op: The People's Business (Manchester, 1994), p. 150; author.

First, the 'co-op divi' was a membership scheme where customers participated of the retailer's financial margin, for the 'divi' returned to all final consumers the profit on the prices paid by all in proportion to their patronage[86]. The 'divi' was replaced in 1968 with trading stamps because of inflation, trading difficulties for societies (more below), as well as an effort to co-ordinate the activities of co-operative retailers at national level. New technology, however, eliminated the transaction cost and the CWS was then forced to resurrect the 'divi' in 1997 (10 years after other major retailers had successfully introduced loyalty cards and schemes).

Secondly, the mortgage interest rate cartel was a system under which building societies gave priority to deposit customers for the restricted supply of mortgages. In essence this system was an effective entry barrier to the mortgage market. The mortgage rate cartel was a form of forced customer loyalty that performed well during the 1950s and 1960s. However during the 1970s the combination of the operation of the cartel, inflation and low savings rates resulted in unsatisfied demand for mortgage funds, amounting to an estimated £1,500m sterling or three per cent of the outstanding mortgage stock in 1979[87]. The cartel ended in 1984 after the Chancellor of the Exchequer threatened intervention.

In the light of the recommended rate system and the proven success of the 'co-op divi', the CPBS and the CWS assumed that a strategic alliance could grow to mutual benefit. A considerable expansion was expected in the housing market as well as the pre-eminence of the Co-operative Movement in food retailing. Therefore, the agreement had the potential to develop into a retailing conglomerate without competitive peer and to effectively contest retail financial markets. Table 4 summarises the attempts, initiated primarily by CPBS, with a view to taking collaboration beyond the interlocking of organisations at Board level.

The agreement immediately lifted the profile of the CPBS within the Co-operative Movement. Preference was given by the CPBS to co-operative societies and their individual members in the recruitment of agency contracts (which developed side by side with organic growth of the CPBS's branch network.) Early success in collaboration also resulted in CPBS attracting term deposits from co-operative retail societies. The initial target of half a million sterling was met almost immediately, doubled by the end of 1946 and by 1947 investments of co-operative societies reached two million sterling. These investments were set to continue growing had it not been that, at the insistence of the CWS Bank, the campaign to attract funds from Co-op societies stopped in 1948 (later to have a moderate re-start while avoiding encouraging transfers out of the CWS Bank). At the time, the CPBS reached £50m in the sum of total assets.

Table 4: Implementation of the CWS-CPBS Alliance, 1944-1949

Year	Action
1944	• CPBS allocates £3m to support housing societies (increased to £5m). • CWS agrees to explore with CPBS ways to finance housing societies (including hire purchase of furniture).
1945	• First Housing Advisor and Co-operative Liaison Person appointed by CPBS. • CWS rejects centralised purchasing or establishing a dedicated organisation. • Joint advertising of alliance aiming to promote housing societies through printed media, posters at retail societies and at the Co-operative Congress. • CPBS and CIS explore joint funding of endowment mortgages.
1946	• Attempt to transfer all existing house insurance to be underwritten by the CIS. • Terms of co-operation between CPBS and CIS are revised. • First co-ordinated action of CPBS with CIS and CWS Bank to fix interest rates. • CPBS starts campaign to actively attract deposits from retail societies. • CPBS to open branch within the premise of a Preston retail society. • CIS and CPBS to explore making advances in Channel Islands and Isle of Man.
1947	• Scottish CWS Bank begins trading. • Second Housing Advisor and Co-operative Liaison Person appointed by CPBS. • Agreement for CWS Bank and CPBS to jointly occupy space at retail societies. • CPBS advances of up to 100 per cent of mortgage value for individual purchase to members of co-op societies (subject to guarantee of the retail society). • CWS Bank deposits £2m for two years at CPBS. • Joint action to attract funds of limited companies.
1948	• Co-op societies are given preferential treatment to tender for work at or construction of CPBS's premises. • CIS formally named preferred issuer of house insurance by CPBS. • CWS Bank intervenes to stop campaign by CPBS to attract co-op societies' funds. • CWS and Scottish CWS inform members and co-op societies of CPBS's preferential status and request attempts to solicit funds from other building societies are firmly rejected. • The Co-operative Union requests consideration to appoint one of its directors (in addition to those of the CWS and Scottish CWS) to the Board of the CPBS. This was turned down on constitutional grounds. • CIS agrees CPBS is free to pursue endowment mortgages with other providers (but under the same conditions as those agreed with CIS).
1949	• Building Societies Association recommends CPBS discontinues advertising for funds of limited companies.

	• First attempt ever by CPBS to calculate the average and incremental cost paid to share deposits. • Co-op societies request direct representation in the CPBS Board (which the latter rejected on constitutional grounds). • CWS directors inform Scottish CWS Bank and CPBS that instead of joint advertising each should conduct its own campaign in its particular field/area.

Source: Minutes of the Board of Directors, Co-operative Permanent Building Society and Minutes of the Board of Directors, Co-operative Wholesale Society.

By the end of the decade and under the auspices of the 'Co-operative Liaison' committee, there had been at least one annual meeting of representatives of the CPBS, CWS, Scottish CWS, CWS Bank and CIS. Attendance of CWS and Scottish CWS to the Board meetings of the CPBS had been mixed. Each meeting sought new ways to increase the membership of the financial services offered by these social providers, as well as investment accounts and term deposits at CPBS, CWS Bank and CIS.

However, the introduction of the Rent Restriction Act was putting in jeopardy future plans regarding housing associations, which was the backbone of the initial agreement, while the 1949 devaluation of the pound threatened the liquidity of the CPBS. Emergency measures then followed, including a plea for the CWS Bank to extend the maturity of its two million sterling term deposit.

In short, collaboration is likely to be observed between a set of persons and organisations who share a common history and are linked by a set of social relations of a specified type such as friendship, transfer of funds and overlapping membership. Underlying embeddedness facilitates trust building. Embeddedness would suggest that participants who are strongly tied to each other are likely to develop understanding of the utility of certain behaviour as a result of discussing alternatives in strong, socialising relations, which in turn influence their actions[88]. However, the likelihood that partners perceive growth opportunities with the same intensity is questionable. As a result, one partner can benefit from the agreement and further develop capabilities to compete while the other remains stagnant.

VI

In post-war Britain the main housing policies of the 1945 Labour government under Aneurin Bevan, Clement Attlee's Housing Minister, were to replace private landlords with private and municipal housing. The change of government in 1951 and the new emphasis on private housing produced a period of rapid growth for building societies. Between 1952 and 1979 the number of building society branches grew from 1,455 to 5,434 with the number of societies consolidating from 796 to 287. The five biggest societies expanded branches at double the sector's rate, with CPBS retaining its fifth place with 20 per cent of total branches[89]. For CPBS, the 100 branch mark was broken by the mid-1950s, the £100m in assets mark in 1954, while that same year the agency system extended to some 2,500 points of contact for the general public[90].

There was a turning point for building society growth in 1959 when the Exchequer introduced a minimum reserve level of two per cent of the sum of total assets. As they were unable to fulfil the requirement, most building societies halted their expansionary policy. The CPBS disposed of more than 1,000 agents (which more liquid competitors were eager to capture), imposed a £500 sterling ceiling on new advances, and even sold and leased back its head office to the CIS. The self-imposed period of restraint ended in 1964, with the CPBS's reserve ratio rising to well over three per cent.

For the CPBS the period of self-restraint to meet capital requirements resulted in a major review of strategy. It found that half of the 1,159 agencies in existence in 1963 produced deposits each amounting to less than £2,000 sterling. The response was to replace those agents with CPBS employees and move to a branch structure whenever possible[91]. By 1966 it was also evident that the transaction flow between CPBS and the CWS had not materialised nor had the CWS ever fulfilled the earlier promise of transferring deposits worth as much as £100m sterling to the CPBS[92]. Rationing, price controls and international shortages during the post-war years reduced trading margins and curtailed special price discount possibilities for co-operative wholesalers.

Table 5 summarises how by 1952 evidence had started to emerge that the Co-operative Movement and the CWS were failing to realise the potential of the post-war economic expansion[93]. Change depicted in Table 5 associates with environmental turbulence as well as internal change within the partners. Relevant aspects of internal innovations include the introduction of a new organisational structure at CPBS which followed the 1950 appointment to the newly created job of Chief Executive Officer (eliminating the Managing Director post). This was the second time the CPBS made an external appointment to its Board when considering CWS and Scottish CWS representatives, but the first time that a

CPBS director had been promoted from outside the CPBS and the Co-operative Movement.

By 1965 the last formal element in the coalition disappeared as the CPBS ceased further appointments of directors from the CWS and Scottish CWS[94]. CPBS's internal estimates at the time reckoned that agencies within the Co-operative Movement failed to generate mortgage referrals while co-operative societies (including CWS wholly owned subsidiaries) consistently withdrew term deposits[95]. Hence, the fund surpluses that had previously existed were absorbed within the Co-operative Movement. At the same time, meetings of the 'Co-operative Liaison Committee' and the 'Co-operative Liaison Person' who was an external consultant, frustrated the CPBS Board as they continued failing to report tangible results.

Table 5: Implementation of the CWS-CPBS Alliance, 1950-1952

Year	Action
1950	• Herbert Ashworth – He moved from the Portman Building Society to the newly created post of Chief Executive for CPBS. • New CEO assesses whether the agency appointments of co-operative societies or their officials (in their individual capacity) had developed appreciable flow of business. In geographies and areas where that was not the case, the CPBS appointed a second agent. • CPBS speeds up organic growth of retail branch network. • CIS refuses to grant preferential commission charges to CPBS. • CPBS unwilling to collect monthly insurance premiums for CIS. • Third Housing Advisor appointed by CPBS (but with no responsibilities for liasing with Co-operative Movement). • CIS refuses to explore any other major investment in housing associations with CPBS. • Diversification of treasury operations at CPBS starts with the progressive liquidation of National War Bond holdings to invest in gilt-edge securities. • Co-ordination of interest rate fixing between CPBS and CWS's subsidiaries stops. • CPBS introduces plan to reach £70m total assets by the end of 1951.
1951	• CPBS sets up Cardiff branch in the same premises as the CWS shop. • CPBS enforces policy closing agency relations with low transaction flow co-operative societies. • Auctioneers, estate agents, accountants and surveyors to be appointed agents of CPBS.
1952	• Co-operative Union proposes to CWS, Scottish CWS and CPBS the creation of a single co-operative finance front (called Co-operative Finance Corporation). CPBS's directors turn down the idea on grounds that independence would be compromised but CPBS is 'glad to contribute with advice and assistance on mortgage finance'. • Appointed of Housing Advisor terminated before contract expired.

• Repayment of £2m term deposit to CWS Bank by CPBS. • Repayment of £1m term deposit to CIS by CPBS deferred to 1953. • Introduction of regional boards to manage CPBS's retail branch networks. • Co-operative Liaison Person (sponsored by CPBS) reports to the 'Co-operative Liaison Committee' on the location of industry, demand of supply of houses and relative matters. No action follows.

Source: Minutes of the Board of Directors, Co-operative Permanent Building Society and Minutes of the Board of Directors, Co-operative Wholesale Society.

A final and devastating break between both organisations took place because of continued erosion of the Co-operative Movement's competitive position. From 1957 sales declined by three to five per cent annually for both wholesale and retail societies[96], and by 1965 the Co-operative Congress recognised reorganisation was inevitable. The weaker retail societies collapsed and were absorbed by the CWS through the Co-operative Retailing Society (CRS).

Trading and liquidity problems at the Co-operative Movement attracted the attention of the press. In particular, television coverage suggested that the CPBS was at risk, which stimulated withdrawals. At the same time, market research showed that only 20 per cent of CPBS members were co-operators and that only a few of the 200 or so co-operative societies acting as agents in 1967 produced significant deposits[97]. A merger with a small London-based society called the British Co-operative Building Society (which had nothing to do with the Co-operative Movement), gave CPBS's management the opportunity to distance itself from the Co-operative Movement and change its name to the Nationwide Building Society. The change of name took place in 1970 and with it ended the potential for the Co-operative Movement to develop the first truly universal bank, that is, a strategy that at that time would have overtaken even the most visionary commercial banks.

There are several potential reasons to explain the demise of the CPBS-CWS deal. A primary reason for the failure of collaboration between the CWS and CPBS was the demise of the CWS's competitive position, from a strong partner to a weak counterpart (and by 1970 even considered a liability). Secondly, the higher profitability of CPBS's directly controlled branch business compared with their CWS-based agency business demonstrated limited synergy. A third element was that potential synergies available from pooling capital were precluded by legislation so the overall cost of capital remained unchanged. As a result, the financial flows were minimal. In 1970, Herbert Ashworth, then the Chairman of the CPBS, said that:

> 'In the past 20 years the amount of money invested in the society by Co-operative organisation had shrunk from £16m to £893,000 sterling.'[98]

This was a long way from the of the end-of-War commitment of £100m sterling.

Another explanation for the lack of cohesion between CWS and CPBS refers to the organisational structure of the collaborating agreement. Each member of the CPBS-CWS deal remained independent, followed its own strategy and rejected consideration of greater integration of strategic or operational matters. Lower profitability and the high costs of administrating the dividend saw the Co-operative Movement abandon its loyalty scheme. Meanwhile the CPBS was able to use the mortgage cartel and its national branch network to increase its loyal customer base. The relative success of the CPBS meant that the CWS's role as a preferred organisation failed to develop.

In brief, power positions within the alliance shifted as a result of environmental change, legislative and regulatory innovations and a failure to preserve initial capabilities. This indicates that to support success in retail finance, alliances need mechanisms to ensure the development of required capabilities, resources and skills. In the case of the CWS-CPBS alliance collaboration took place exclusively at Board level (i.e. interlocking directorates) and the agreement failed to implement cross-selling opportunities. Together these factors limited the potential to unite two strong customer retention schemes.

VII

In sharp contrast to the horizontal CWS-CPBS alliances designed to achieve product diversification, Spanish 'cajas' (i.e. savings banks) developed a vertical alliance structured through a 'central' savings bank or wholesaler of retail finance. This kind of institution dated to the early 20th century and was pioneered by Skopbank in Finland (established in 1908), Fellesbanken in Norway and ICCRI in Italy (both established in 1919). 'Central' banks were membership owned and they had little influence on members' strategic or operational matters. Their aim was to service the needs of participating institutions often in a representative capacity but also in areas where necessary economies of scale were beyond the individual member[99]. In Spain, the 'central' or main clearing bank for savings banks was called the Instituto de Crédito de las Cajas de Ahorro (ICCA).

The ICCA was created in 1933 to act as a clearing bank for Spanish savings banks. The aim of the new intermediary was to enable pooling of financial resources in order to fund or syndicate social-charter investments as well as establishing a 'lender of last resort' scheme for the cajas. In 1962, ICCA became the savings banks' formal representative at the Ministry of Finance and turned into the prime instrument for government control over the cajas. ICCA formally disappeared in 1971, its control and supervision duties were absorbed by the Bank of Spain and its clearing functions by the Confederación Española de Cajas de Ahorro (CECA)[100].

The Spanish Confederation of Savings Banks (CECA) was established in 1927 as the independent federations of cajas amalgamated. Bank federations in Spain emerged as a response to regulatory changes that modified the otherwise equal framework for business under which commercial and savings banks could compete[101]. CECA extended the cajas' domestic and international influence and the ability to lobby on their behalf.

Besides its attempts to counter balance the commercial banks' cartel (Consejo Superior Bancario, 1921-94), CECA was used by the Spanish government to co-ordinate social charter investment. In 1939, CECA also helped to implement a 'principle of territoriality', through which savings banks' business was restricted to a single province[102].

As in the US state banking regime, restrictions to geographic growth limited potential economies of scale at Spanish savings banks. The disadvantage was critical for two reasons. First, it limited opportunities for market diversification as a nationwide market for goods and products that emerged in Spain at the end of the Franco regime. Secondly, limited geographic growth restricted consolidation which would have been required to benefit from technical change (IT investments in particular). As described by one interviewee:

> 'Several of our lines [of business] are nurtured by or are left in the hands of the Confederation. Perhaps the most strategic aspects [of developing semi-related business lines] are left to the Confederation. There are different committees or working groups to request the development of a new line [of business]. There is one called *COA* and it is the one in charge of overseeing all opportunities for joint business. They undertake studies and see whether it is more interesting for the smaller banks or for CECA to provide, say, telephone banking services. This study

> is then the subject of consideration by all the cajas and those who want to develop that facility together will then join with CECA. Others will wish to develop organically and assume the risks involved. As a result, we have no studies [looking at our organisation individually] to enter into a new line of business. But you will find many studies exploring new opportunities for the whole of the Confederation and they include total clients, total expected response, cost levels, etc. Decisions are based on that information. Therefore, small and medium sized cajas leave that kind of project to CECA. Another very innovative project is the introduction of the electronic purse and that too is being developed by the Confederation, once again reflecting how we leave certain strategic aspects to CECA. We thus leave any major investment to CECA. We, in turn, avoid ascertaining discount factors. Rather our project appraisal entails assessing the incremental costs for the [retail] branch network and then [using short term government debt as discount factor to] forecast three years of profit and loss statements for our caja.'[103]

The long period of geographic restrictions left Spanish savings banks with outsourcing as the only option to access scale benefits not attainable individually. As a result, collaboration characterised by the organisational structure of a strong and successful alliance emerges throughout the history of CECA. This collectively owned central operator became the main recipient of the cajas' outsourcing strategies and clearing activities.

CECA, therefore, went beyond creating scale and capabilities in IT or clearing activities and began to develop and supply financial services to retail members. These services included currency dealing, leasing, credit card management (branded 'Tarjeta 6000') and factoring. CECA also represented savings banks in the international credit card clearing of VISA and MasterCard through the Eufiserv network. Wholesale international transactions on behalf of the cajas began in 1988. These services developed into representative offices in major international financial centres, a single point for SWIFT exchanges, 1,300 correspondent agreements with banks in 88 countries and trading operations whereby CECA became the third biggest Spanish player in spot currency transactions[104]. Services from CECA also included non-financial services like research, executive education, auditing inter-bank agreements, centralised marketing and purchasing.

In 1975 the Spanish savings banks developed electronic clearing with CECA acting as the central point for inter-bank payment settlements amongst the savings banks, as well as for the co-ordinator for the ATM and EFPTOS networks. To achieve cost savings, a standard was established for the cajas' IT platform and a single interface with the Spanish clearing house system. Data processing at CECA linked 50 independent centres at savings banks and acted as a back-up centre for many more institutions[105]. In the mid-1990s, IT services developed to include Web information services (an intranet with links to Internet), mobile offices and telephone banking for small savings banks.

From 1975 to 1985 the ‘big’ cajas actively engaged in CECA's activities as there were no major operational or strategy distinctions between them and the ‘small’ cajas[106]. The association of ‘big’ cajas continued while all the cajas could benefit from the troubles of the commercial bank sector, which resulted in the growth of advantages and profits for the cajas[107]. However, reduced rates of market penetration increasingly turned CECA into the defender of the smaller savings banks and this was accentuated as bigger cajas pursued distinctive diversification moves such as their own international departments or the purchase of failed co-operative banks (*circa* 1987). The ominous trend for CECA changed in the mid-1990s and was associated with the cajas having to update IT investments, a new general manager being named for CECA (Juan R. Quintás, a former management consultant), and renewed importance for CECA as the ‘central’ Spanish savings bank.

In brief, competitive collaboration between Spanish cajas led to the development of CECA in 1927. CECA then encompassed a group of financial intermediaries that for a very long period of time had their business potential and diversification opportunities (in bank markets) limited by regulation. However, economic growth in Spain during the 1980s and early 1990s, domestic regulatory change and the adoption of IT applications allowed these mutual financial intermediaries to achieve successful diversification in Spanish bank markets. Some of these opportunities for growth were opened by managers of individual savings banks while others were only achievable through co-operation within CECA. Tactical strategies of savings banks thus resulted in high sustainability of competitive advantage for the whole co-operation agreement.

VIII

At the end of the 1980s all CECA members remained legally and functionally independent and, contrary to other European experiences, the alliance had not grown into a single franchise[108]. Although each savings bank had an independent treasury department, the risk-diversification of the system meant that as a group, the cajas’ cost of funds was as much as one per cent below that of private banks[109]. This advantage continued throughout the

1980s and emerged during a period (*circa* 1962 to 1977) in which the cajas' collaborative strategies evolved to reduce their competitive disadvantage relative to full-service banks[110].

Another source of advantage emerged around the restrictions on product and market diversification. These restrictions resulted in a focus of the business of the savings banks on servicing private individuals and small and medium sized firms. The savings banks thus obtained a dominant market position amongst lower-income customers but also in the Spanish middle class. The retail focus thus engendered a strong competitive base in the late 1970s as the cajas gained greater operative freedom. Moreover, the period of growth coincided with a crisis amongst their main competitors, the commercial banks, from 1977 to 1985.

The cost-sharing network of CECA worked well, simplified achieving control at the caja level, and provided savings banks with a low cost-base that helped them deal with the long economic downturn associated with the energy crises and the end of Franco's regime[111]. Strong regional ties and effective use of IT also helped Spanish savings banks to increase their share of deposits (which in any event was being eroded at the top end by growing bank disintermediation). During this period, savings banks' share of deposits grew from 30 per cent in 1966 to 35.3 per cent in 1980 and to 42 per cent in 1988[112].

This growth was mainly at the expense of commercial banks who had enjoyed an unusually large portion of total national assets by international standards. Indeed, in 1989 Spanish commercial banks held 73 per cent of total liquid assets while this ratio averaged between 24 and 50 per cent in other European countries[113]. However, much of the Spanish growth had been fuelled by investments in large multinationals who required investments and international banking services which were not the strengths of the Spanish commercial banks. Also these newcomers tended to acquire or displace indigenous Spanish companies further eroding the customer base of the Spanish commercial banks.

Changes in the ability to compete forced commercial banks to redirect their attention to retail customers and thus to start to pay interest on current accounts. Their aim was to increase their share of deposits but also reduce the savings banks' share of retail banking. The move was initiated in October 1989 but this effort effectively broke the Spanish banking cartel and was followed by a mortgage rate war. Despite the actions of commercial banks, the alliance structure of the cajas remained intact and savings banks continued growing and even gained market share[114]. By 1994 savings banks captured 47 per cent of total liabilities for the overall Spanish banking system (51 per cent of total deposits made by individuals). In other words, in 1994 the cajas achieved a market share that for the first time in their collective history exceeded the market share of commercial banks[115].

The relative success of savings banks in securing leadership of Spanish retail finance in spite of commercial banks' efforts to the contrary, gives an insight into the sources of the cajas' competitive advantage. Anecdotal evidence suggested that the cajas' competitive advantage was built upon market specialisation as their shared strategy seemed to work despite wide variations in cajas' sizes[116]. Once savings- and commercial banks operated under the same regulatory framework (from 1985) and increasingly began to compete for the same sources of income[117], the lower cost base of decentralised simplicity and centralised complexity became clearer. However, econometric analysis suggested that market focus and specialisation did not solely account for superior performance[118]. This research established that equivalent size commercial- and savings banks had distinct differences in their commercial and financial capabilities. In effect, distinctive management practices resulted in cost differences beyond what was explained by market specialisation[119]. In other words, some cajas enjoyed additional operational efficiencies to the benefits attributed to the CECA alliance.

One of the key elements in savings banks' competitive advantage between 1985 and 1990 was IT[120]. CECA led IT development and this allowed the cajas to benefit from their national coverage. CECA introduced a nationwide electronic interbank funds transfer system, direct salary payments, and a state-of-the-art ATM network. These were computer systems designed to provide interoperability rather than exclusivity or competitive advantage.

Accelerated growth and wider responsibilities created operational and strategic problems for CECA[121]. CECA originated to service the entire caja system but voting procedures meant it was dominated by the small cajas. In an effort to retain the business of regional and big savings banks, CECA had to devise new ways to share the synergy benefits more favourably with the large cajas (whose business was necessary to create them). CECA therefore set up limited cross-subsidisation between membership fees and supplied services[122].

The efforts made towards financial soundness and fair pricing policies also addressed the need to make substantial IT investments to keep up with developments at commercial banks[123]. At the time, major cajas were investing in proprietary systems and medium sized institutions were actively outsourcing outside the CECA umbrella by transferring management of legacy hardware, IT systems and risk-control software to international vendors like Unisys, EDS, Microsoft, ICL, Bull or IBM[124]. Furthermore, three member savings banks of non-neighbouring regions created a joint venture (called ATC) that by-passed actual and potential services from CECA. Between 1990 and 1994, this consortium integrated their electronic banking systems in a joint venture[125]. Consortium members agreed to respect existing geographical boundaries but co-operated to provide joint capabilities to reduce costs, improve overall skills, and customer databases[126].

Growth in such 'non-obligational' outsourcing agreements and creation of saving bank consortia reflected the limits to which smaller cajas could disproportionately enjoy the benefits of CECA. The result was that CECA concentrated on services required for small savings banks to achieve critical scale in several IT dimensions and thus increasingly provided the basis for competitive advantage.

For instance, in 1994 negotiations between CECA and the two top cajas to improve back-office systems and develop key products like electronic purses reached a critical point[127]. Through the resulting agreement CECA members and major banks established the standard for the electronic purse[128]. The competing standard (Visa Cash) was then forced to review its strategy and accept interoperability in order to maintain its market position[129].

In brief, services provided by CECA became a necessary (but not sufficient) condition for individual market success. CECA's services provided the cajas with the necessary flexibility to anticipate a competitive advantage but it was up to the individual caja management teams to identify the most promising growth opportunities.

IX

The stance adopted throughout this article to assess the success of collaboration agreements prefers to judge partnerships through changes in competitive strength as measured by the development and renewal of capabilities, rather than the transaction's longevity or the formality and visible structure of agreements. This viewpoint sees alliances as essential tactical elements and is the one taken to illustrate the evolution of two integration episodes in retail banking. Through collaboration strategies and outsourcing, alliance members achieve capabilities that as a group allowed them to challenge banks in the provision of retail finance. As independent companies the absolute investment and information barriers would have made risks of entry far more of a deterrent. The discussion reviews bank capabilities in terms of their advantage relative to complex (alliance) competition as well as relative to direct competition while focus on risk management skills emerges as one of the key areas mitigating competitiveness.

The discussion suggests that the CWS-CPBS alliance was a private attempt to access the benefits of risk diversification and exchange of customer access while Spanish savings banks built around sharing a cluster that was sensitive to scale and technology. Regulation was a critical element in shaping the structure of the market and the strategic opportunities of both players. The CWS-CPBS deal makes its appearance in an environment characterised by both banks and building societies defining their stance though a market imperfection (namely, monopoly of the clearing system and supply of residential mortgages). Competitive collaboration aimed to bypass these restrictions by increasing the portfolio diversification of the CWS while the CPBS increased its share of the mortgage market. CECA also began to strengthen individual savings banks in the light of the Spanish banking cartel. A change in regulation enabled CECA to contest the market for clearing activities in favour of the cajas. This, together with IT investments co-ordinated by CECA, allowed the savings banks to build a base that evolved into a competitive advantage.

Evidence in this study highlights the importance of social embeddedness to explain the formation and development of competitive co-operation. For instance, links developing from personal and organisational relationships place CPBS as the favourite building society for the Co-operative Movement. The deal with CWS and the Scottish CWS then sought to capitalise on friendship, trust, and overlapping membership to intensify the transfer of funds, referral business and access to markets that regulation otherwise kept out of reach. In the same vein, CECA was the forum through which managers of the Spanish cajas often filtered growth opportunities and CECA also allowed smaller cajas to achieve critical scale in IT-intensive markets. However, it was the individual actions of the cajas' managers that changed competitive intensity as CECA was unable to implement change without the support of its members.

As opposed to the opaque boundaries and expectations in the CPBS-CWS alliance, exchanges through CECA entailed relatively well defined expectations of behaviour by participants toward other actors (both at the individual and organisational levels). Participants then shared connections in order to gather common information and knowledge of each other, of each others' cajas and of local markets. As a result, it is clear interaction through social networks and working collaboration which predisposes participants to select partners. For instance, two geographically distant cajas are more likely to engage in collaboration between themselves than individually with a commercial bank or a non-financial provider. For the same reason, previously unconnected firms within the Co-operative Movement were more likely to enter into collaboration. The CPBS and the CIS had been in business relations at the turn of the 20th century, placing them less distant from each other and more likely to engage in a competitive collaboration network than with each others' peers in the building society or insurance market, respectively.

Evidence in the research also suggests there were systematic differences in the capabilities to manage co-operation. The CPBS successfully replaced the low transaction volume agency contracts with co-operative societies (or their officials acting in individual capacity) with more intensive referrals for mortgage business from agents who were closer to the overall process (such as accountants, real estate agents and lawyers). The results regarding the relative importance of capabilities to manage alliances are thus surprising given that both the CWS and the Scottish CWS had a long experience of collaboration with individual members, long standing suppliers, and dealing with co-operative societies. These research results would thus raise questions as to the importance of identifying differences between capabilities to manage seemingly related agreements and capabilities to manage a portfolio of different type of alliances.

As with other episodes of collaboration documented in the literature, research in this article pays attention to the dynamics relating interlocked directorates and alliance performance. For instance, control of the CWS-CPBS deal developed through interaction at a single point of activity and while exchanging information exclusively at the highest levels of management. On the other hand, CECA delivered several types of services and effectively acted as a forum for the cajas' top and middle managers. The continuous interaction at CECA allowed the exchange of market information, identification of competitive concerns of mutual interest (such as new entrants, technological changes or development of new skills), and mutual understanding of partners' broad capabilities. All these features allowed the Spanish alliance to re-negotiate more often than the British alliance.

The analysis of the CWS-CPBS agreement, however, must also recognise that the UK episode illustrates more vision in re-engineering the business to avoid entry barriers. The CWS-CPBS alliance unified participants' competitive tactics and goals with the target of developing a pre-eminent position in UK retail finance. In this respect, there was little strategic intent in the Spanish alliance. Spanish savings banks gained force in a change of regulation that allowed them to extract competitive advantage over a wide range of business but as a group the savings banks lacked a unifying purpose or strategic vision. The cajas were unwilling or unable to strengthen other sources of growth outside their goal of achieving critical scale in selected markets through CECA. Therefore, as a group the Spanish alliance benefited more from emergent strategies (such as changes in regulation) than from visionary actions.

These research results thus support the idea[130] that shared comprehension of growth opportunities (and the consequences of changes in expected pay-offs emerging from environmental turbulence) is critical to understand alliance formation and development. Shared comprehension also helps to understand the incentives to co-operate, identify mechanisms to align otherwise incongruent expectation about collaboration, and assess the possibilities for participants influencing alliance outcomes unilaterally.

Research in this article also supports the idea that organisations establish co-operation for reasons other than symbolic social affirmation. Competitive co-operation moves forward on concrete strategic complementarity that the participants have to offer each other. Research in this article thus suggests that the strategic advantage from competitive collaboration and outsourcing alliances in banking is possible if the resulting arrangement:

- Allows participants effective access to pooled regulatory capital (to optimise capital resources across certain activities);

- Delivers netting within asset-and-liability management systems (so it captures financial economies of scale and creates liquidity);
- Provides diversification and so improves credit rating; or
- Provides critical economies of scale in managing common systems (such as payments, interconnectivity or re-insurance functions).

In brief, the case study on strategic alliances suggests that developing adequate capabilities to compete might be as important as identifying the best opportunities.

NOTES

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