CHAPTER 2

LITERATURE REVIEW

This chapter discusses the literature that was systematically conducted and the conceptual model that was developed to understand the theoretical framework which encompasses member trust, organizational performance and member satisfaction. The chapter goes on to discuss the problem that was identified. The chapter concludes with a delineation of domain specifications and constructs definitions.

2.1 LITERATURE REVIEW

The literature review is conducted in two parts, first being a description of existing literature and second behind the development of a conceptual model explaining the relationship between member satisfaction and organizational performance.

2.1.1 Description of Existing Literature

Not much literature was observed to offer a definition on Member Satisfaction in member organizations even though it is mentioned in innumerable articles. The extensive research on the member behaviour in co-operatives, in general, and co-operative banks, in particular, has dwelt at length on various terms like member trust, organizational performance and member satisfaction (Barney and Hansen 1994; Donaldson and Preston 1995; Hansen et al 2002; James and Sykuta 2006; Berrone et al 2007; Nilsson et al 2009; Golovina and Nilsson 2011). But a conceptual model linking these is
absent in the literature. Such an attempt is made in the next section where the inter linkages brought out by the above mentioned research papers are explained in some detail.

2.1.2 Development of a Conceptual Model

Member Organizations (MOs) are organizations where socially significant goals are also pursued by its members apart from normal economic goals. The goals may be further expanded in terms of needs, rights, duties and responsibilities as a member. Co-operatives are one kind of member organizations which have gained wide spread acceptance globally over the years. So for the research when we say member organizations we mean co-operatives. And co-operative banks are taken as the domain for research since they are perfect co-operatives and also because co-operatives are well-documented member organizations in India. Elaboration of the domain is done in 2.3.1.

The organizational performance of a co-operative cannot be evaluated in financial terms only. The satisfaction level enjoyed by the members is also a crucial, but often ignored, parameter for the long term success as a co-operative. Members are key stakeholders in Co-operative Banking and, stakeholder satisfaction leads to good organizational performance according to Donaldson and Preston (1995). That, member behaviour also influences organizational performance, shall be described in detail in the coming portions. So developing a conceptual frame work to understand the relationship between member behaviour, member satisfaction and organizational performance is considered strategically relevant and important.
2.1.2.1 Member Trust

The most crucial aspect of member behaviour is member trust (Barney and Hansen 1994; Hansen et al 2002, Nilsson et al 2009). Trust is defined as the extent to which one believes that the other will not act to exploit one’s vulnerabilities (Barney and Hansen 1994). This expectation is based in part on perceptions of trustworthiness and competence of the entities in which the trust is placed, James and Sykuta (2006). All member organizations are built on this concept of mutuality.

The extensive literature on behavior contributing to member satisfaction revolves around the two independent concepts in member trust, trusting reciprocal relationships between members and trusting personal relationship between the members and the management (Hansen et al 2002). As RoyChoudhary, 1996 points out, the relationship of self-governance and of an external authority in a co-operative need not be mutually exclusive, but to be balanced and fine tuned.

The complementing concepts of social capital and the spirit of personal ethical behaviour lead to trusting reciprocal relationship among members. Social capital is the concept of creating value from social networks and associated reciprocity (Putnam 1995). Social capital has two main components, social networks and trust. Social network and the associated norm of reciprocity have a value for the society. Trust, as mentioned earlier, is defined as the extent to which one believes that the other will not act to exploit one’s vulnerabilities. This results in the willingness of the members to keep patronizing the co-operatives with their business (Fulton 1999). Chakraborty, 1996 talks about the need to look beyond the ‘form’ of cooperation to the ‘spirit’ of cooperation. He questions whether the admitted failure of the co-operative model is solely due to system and design failures as implied by researchers like Shah (1996). He focuses attention on the need for
personal ethical behavior among the members and the requirement of the *Lokasamgraha* spirit for co-operation. Here, to paraphrase Chakraborty (1996), “According to Radhakrishnan (1976), *Lokasamgraha* stands for ‘the unity of the world, the interconnectedness of society’. If the world is not to sink into a condition of physical misery and moral degradation, if the common life is to be decent and dignified, religious ethics must control social behavior.” Thus, ethical behaviour by the man that encourages others to trust him is critical to develop mutual trust among people. Thus, these two twains of the western and eastern thoughts are brought together to form a common thread as a unified concept of mutual trust among members.

The complementing concepts of trustworthy agency behaviour and managerial competency lead to member trust in top management, the second key aspect of the model, according to James and Sykuta (2006).

Eisenhardt (1989) in her review on agent theory emphasis the role that agent plays in the success of the organization. She talks about the issue of goal conflict between the agent and the principal. The agent’s, that is, the management’s, goal conflict with the principal (members), is best resolved through trusting relationship between the two. In other words, management must be trustworthy and earn the confidence of the members. Managerial competency is the crucial factor to influence organizational performance (Shah 1995). Managerial competency is defined in terms of design, governance and management of the co-operative. Since it is difficult to measure managerial competency directly, trust of the members in the directors’ board and top management is used as a proxy (Hansen et al 2002). Thus, the trust earned by the agent because of their behaviour and the tendency of the members to trust a competent management together leads to members’ high trust level in top management.
Co-operative banks, being complex in administration, it is cognitive trust of the management that is significant in influencing organizational performance (Osterberg and Nilsson 2009). Mutual trust among members also significantly influences the members’ assessment of the organizational performance (Hansen et al 2002). Thus, these two factors, mutual trust among members and trust in management, lead to organizational performance.

2.1.2.2 Organizational Performance

Organizational performance, for a co-operative bank, is best measured by CAMEL rating (C-Capital Adequacy, A-Asset Quality, M-Management, E-Earnings, L-Liquidity) just as for a commercial bank. In India, urban co-operative banks are assessed for performance by an adapted version of CAMEL rating, called CAMELS (Additional element S-Systems and Control) rating, by the RBI. This adapted rating was recommended by the Report of the Working Group on Rating System for Urban Co-operative Banks, Reserve Bank of India, 2002 and acted upon by the urban co-operative banks of India. Organizational performance is the reference point against which the effectiveness or the ineffectiveness of the behaviour of the members is checked. If organizational performance is high, the members are assumed to be behaving in the most appropriate way and vice versa.

2.1.2.3 Member Satisfaction

Organizational performance, in turn, leads to stakeholder satisfaction. Here organizational performance becomes an intervening variable between the two independent variables, mutual trust among members and member trust in top management and the dependant variable, member satisfaction.
Schneider et al (2003) has come out with empirical study on employee job satisfaction where it is proved that organizational performance causes employee satisfaction. This supports March and Sutton (1997)’s review which contends that organizational performance is not always a dependant variable where stakeholder attitudes are concerned. Fornell et al (1996) talks of customer satisfaction scale, ACSI, as being an evaluator of Organizational Performance. In co-operatives, the key stakeholders are the members and member satisfaction will be dependent on organizational performance and at the same time be a measure of it.

Customer Satisfaction of organizations is measured by the American Customer Satisfaction Index (ACSI) (Fornell et al 1996). No comparable index or scale has been developed for Member Satisfaction in member organizations to the best of the knowledge of the researcher.

The three structural factors of member satisfaction are 1) Ownership role 2) Controller role 3) Beneficiary role (Cook 1995; Kyriakopoulos et al 2004). The construct is defined in 2.3.2. According to Beal (1955), those who defined co-operative as their agent had a significantly higher member satisfaction than those who considered it as another place to do business. This indicates that ownership role gives satisfaction to the member. Osterberg and Nilsson (2009) found members’ willingness to participate in co-operative governance to be the single most important explanation for Member Satisfaction. That gives supporting evidence to the part of the construct, namely that of controller. As a beneficiary, according to Bhuyan (2007), the crucial issue in member satisfaction is whether the member is loyal to the co-operative or not. By loyalty what is meant is whether the member patronizes member’s own co-operative to buy (or sell). That is, whether he does justice to the role as a beneficiary.
The researcher has identified three sources of moderating influences on member satisfaction as follows. The most important moderating factor according to Osterberg and Nilsson (2009) is members’ participation. According to Nilsson, 1994, in order for members to be able to renew the co-operative organization they must be involved in the organization. He quotes, “However, members have different ways of relating to the co-operative organization. On the basis of Hirschman's theory, Stryjan (1989) identifies four forms:

a) Voice/protest: negative and creative attitude,
b) Exit: negative and non-creative attitude,
c) Involvement: positive and creative attitude,
d) Loyalty: positive and non-creative attitude”

The involved member is most likely to be satisfied with the co-operative. So the effort should be to contain exit, allow voice to be expressed at appropriate forum and convert loyalty to involvement.

The second moderating factor is member attributes. In the context of farmers’ co-operatives, the important member attributes, in general, in co-operatives are farm size, farm income, off-farm income, membership period (Bhuyan 2007). In co-operative banks, we can approximate this to income and membership period. Generally higher the income and more the membership period more satisfied is the member. Age is a moderating factor (Staatz 1989) in member loyalty, an expression of member satisfaction. The older the member, more likely the member is to be satisfied with the co-operative. So the focus should be to keep the income of the member high through the efforts of the co-operative and to retain him as a member as long as possible through innovative and imaginative measures.
The third moderating factor is member attitudes. The commitment to and belief in, the co-operative ideology is an apparently important moderating attitude. According to Hakelius (1999), the more the member believes in the ideology of co-operatives, the more likely he is to be satisfied with the co-operative. Therefore education of the member about the co-operative way of life is essential to the success of the co-operative.

All these moderating influences, as is shown, positively influence the impact of member trust on member satisfaction. However, if the moderating influences impact negatively, there can be member dissatisfaction.

The role and purpose of co-operative banks have been examined by a number of studies in the attempt to determine their objective, for example (Taylor 1971; Fairbairn 1994). Overstreet and Rubin (1991) identified low cost credit, high yielding deposits and financial stability as some important objectives in co-operative banks. Organizational purpose is dictated by key stakeholders (Rogers and Wright 1998). For co-operative banks, the key stakeholders are the members. The objective, in other words, is to satisfy the members.


So the model is built, first considering the drivers of organizational performance, namely mutual trust among members and member trust in top management. Then the forward linkage between organizational performance and member satisfaction is established. Finally the feedback loop from member satisfaction to member trust is drawn.
In the model, as shown in Figure 2.1, it can clearly be seen that, in spite of positive initial conditions of social capital, personal ethics, managerial competency and trustworthiness of the agent, the organizational performance can decline if member satisfaction is not managed proactively. The moderating influences, when these lead to member satisfaction, can improve the co-operatives’ organizational performance, setting the co-operatives’ path on a virtuous cycle upwards. Otherwise, the organizational performance can spiral down a vicious cycle to decline. The politicization of the co-operative and the bureaucratization of the management are results of a vicious cycle of feedback of member dissatisfaction. Politicization negatively influences mutual trust among members and bureaucratization negatively influences trust in top management. These, in turn, negatively influence the organizational performance.
2.2 PROBLEM IDENTIFICATION

This research highlights the need to seriously consider the strategic role that measurement of member satisfaction plays in the organizational performance of a co-operative. By the introduction of the concept of member satisfaction into the relationship between member trust and organizational performance, the researcher proposes to explain how management or mismanagement of member satisfaction can lead to a virtuous or vicious cycle of organizational performance. More the member satisfaction, more the member trust and better the organizational performance and vice versa.

There is also a need to systematically measure member satisfaction in co-operatives so that the management can proactively intervene in member satisfaction management. This, it is hoped, will allow the management to avoid a vicious cycle of low organizational performance and direct the organization to a virtuous cycle of better organizational performance.

However, member satisfaction needs to be investigated empirically to confirm why, under similar conditions, both external and internal to the co-operative, some co-operatives go ahead and succeed while some others fail.

Members are key stakeholders in co-operative banking and stakeholder satisfaction leads to good organizational performance according to Donaldson and Preston (1995). So it is expected that, since high level in member satisfaction leads to good organizational performance and vice versa, member satisfaction should be measured and understood.

Gap in the research is that no scientifically validated and reliable scale has been developed to measure member satisfaction in co-operative banks and hence the organizational performance of the co-operative banks is not reported in a balanced way.
The research question, thus, can be framed as whether and how member satisfaction can be measured in co-operative banks.

### 2.3 DOMAIN SPECIFICATIONS AND CONSTRUCT DEFINITIONS

The primary domain is member organizations. But, as explained earlier, for the purpose of the study the domain is taken as urban co-operative banks for practical purposes. The construct under study is member satisfaction in urban co-operative banks. It has three factors, ownership role, controllership role and beneficiary role. Cognitive trust of the management is a construct used for nomological validity during exploratory survey.

#### 2.3.1 Member Organizations

Member Organizations (MOs) are organizations where socially significant goals are also pursued by its members apart from normal economic goals. Membership is considered more important than capital. Some examples of Member Organizations are Co-operatives, Associations and Clubs. Co-operative banks are taken as the domain for research since they are perfect co-operatives. Urban Co-operative Banks are selected for research being a group of well-documented and well-audited co-operative banks in India.

Co-operatives are member organizations with the following six critical principles (International Co-operative Alliance (ICA) Congress, 1966).

i) Voluntary and open membership

ii) Democratic control (one member, one vote)

iii) Limited interest on share capital (members’ capital deployed should be paid fixed, limited interest.)
iv) Patronage dividend (Surplus should be distributed in proportion to usage.)

v) Co-operative Education

vi) Co-operation among Co-operatives

The ICA Co-operative Congress, 1995 revised the principles to some extent. But, the Kerala Co-operative Societies Act, 1969 has essentially retained the older principles.

Alternatively Fairbairn (1994) describes co-operatives by contrasting them to other types of organizations, stating that “co-operatives are owned by those who use them, not by investors or partners whose interest is to make a profit out of it.” Co-operative Banks are different from other co-operatives in that the members are both the suppliers and buyers of the banks’ facilities where as in other types of co-operatives they are beneficiaries, either as suppliers or customers with public as the business counterpart. That is, they are purchasing and marketing co-operatives at the same time (Dakurah et al 2005). In co-operatives, co-operative banks are considered as ideal co-operatives as they are both producer co-operatives and consumer co-operatives (Taylor 1971). So here, when it is mentioned, co-operatives, the focus is on co-operative banks. Again, in co-operative banks, there are only two types of banks with primary membership, Primary Agricultural Co-operative Societies and Urban Co-operative Banks. It was decided to select Urban Co-operative Banks as these are monitored by the Reserve Bank of India and are, hence, run more professionally.

2.3.2 Member Satisfaction in Urban Co-operative Banks

Building on three definitional principles of co-operative structure-user-owner, user-control and user benefit (Cook 1995; Kyriakopoulos et al
and drawing from co-operative experience in practice as observed by the researcher, we define specific structural factors in relation to each principle. The three roles that the co-operative members have, as owner, controller and user/beneficiary (Abrahamsen 1976; Barton 1989), are taken as the focal point of a construct development for Member Satisfaction.

So, operationally, Member Satisfaction is defined as the affective response that a member in a member organization experiences as an owner, controller and user/beneficiary when his/her social and economic needs, rights, duties and responsibilities as a member are met.

In this context, it is also conceptualized that Member Satisfaction is a second-order construct made up of three equally important reflective components: ownership role, controller role and beneficiary role. The figurative representation is shown in Figure 2.2.

![Figure 2.2 Path model of the MSUCB Construct](image)

- MSUCB = Member Satisfaction in Urban Co-operative Banks
- OR = Ownership Role (in Member Satisfaction)
- CR = Controllership Role (in Member Satisfaction)
- BR = Beneficiary Role (in Member Satisfaction)
2.3.3 Ownership Role

Co-operatives address the following issues concerning ownership: who can own it, how is the equity distributed, how do they redeem it, how is the net income allocated?

The co-operatives in India have open membership. Anybody who is above 18 years old and has stable mental state and resides within the geographical limits of the co-operative can be a member. In UCBs minimum number of equity shares is four amounting to Rs. 100. In case a loan is taken, equity share equal to 1% of the loan amount subject to a ceiling of Rs. 15000 has to be taken. Shares cannot be redeemed, but may be transferred or inherited. The net income is allocated as dividends. The maximum percentage that can be given out as dividend is 20% of the profits.

2.3.4 Controllership Role

Control in co-operatives, essentially, boils down to the following questions: who is allowed to vote, what is the voting rule?

In Indian co-operatives everybody enjoys the same voting right irrespective of the number of equity shares they hold. Anybody who has been a member for at least 60 days before the day of election to the Board of Directors is eligible to vote. There is no vote by proxy. Everybody has to be physically present for voting. Nominal members, for example depositors and people who take loans against gold as security, have no voting rights.

2.3.5 Beneficiary Role

Co-operatives’ pricing policy aims not at making profit but offering benefits to the members.
As far as urban co-operative banks are concerned, their major thrust is to provide loans at reasonable rates to members than earn a large profit. They are also lenient in their approach to defaulters treating them with a lot of human consideration compared to the average credit providing establishments. The policy adopted by urban co-operative banks is to provide loans to improve the productivity and income levels of its members, especially to the priority sector. However the banks also provide loans for the personal needs of the members provided the collateral security is sufficient. All this is done in a very simple and quick way to justify the claim of easy loan provisioning.