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Diversification through Acquisition: Co-Operative Banks as Dynamic Players in Competitive Markets

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Mainstream strategic management literature has for long considered acquisition as one of investor-owned firms' options when pursuing growth – to survive competition and gain greater profits. Relatively little attention has been given to this option in literature on co-operative enterprises. Therefore, the main purpose of the qualitative study at hand is to advance knowledge on strategic management of consumer co-operatives with a focus on acquisitions. Our interview data concerns one of the biggest corporate acquisitions in Finland, which served to give birth to the country's leading financial services constellation: OP-Pohjola Group. Analysing the data we depict the context of the acquisition decision, identifying particular themes (forces and boundary conditions) seen as setting the stage for the strategic move and generate a model that helps explain when and why acquisition becomes a relevant strategy for a consumer co-operative (bank). Our study shows that mainstream strategic management doctrine can be integrated into co-operative management theory to the extent it fits the purpose of co-operative organizations.

Keywords: co-operative, bank, competition, growth, diversification, acquisition

Introduction

Acquisition (industrial restructuring) is a popular strategic decision in companies responding to increasingly intensive competition in globalizing markets, in which a variety of opportunities and threats are seen as emerging in upward frequency. Acquisition research has raised questions such as which choices made in acquisitions are likely to lead to success (Fowler & Schmidt, 1989; Kitching, 1967; Kusewitt, 1985; Salter & Weinhold, 1979; Söderberg & Vaara, 2003), what types of acquisitions lead to better results in terms of financial or synergy performance (Chatterjee, 1986; Chatterjee & Lubatkin, 1990; Lubatkin, 1987; Porter, 1987; Söderberg & Vaara, 2003), and how performance is connected to resource development (Capron, Dussauge & Mitchell, 1998; Capron, Mitchell & Swaminathan, 2001) or acculturation (Larsson & Lubatkin, 2000). Scholars have also been interested in how management can bring about the potential synergistic benefits (Chatterjee, 1986; Larsson, 1990; Shrivastava, 1986; Söderberg & Vaara, 2003), create value (Haspeslagh & Jemison, 1991), transfer knowledge or capabilities from one organization to another (Bresman, Birkinshaw & Nobel, 1999) or organizational learning (Leroy & Ramanantsoa, 1997).

Even if acquisitions are typically associated with listed firms (profit-maximizing, investor-owned firms), there are also other institutional forms of business that participate competition in different markets, thereby facing similar needs to grow and respond in order to survive competition. A form of business that has received less attention in acquisitions discussion is the co-operative. While the development and evolution of co-operative enterprises is typically depicted as organic: slow and stable (Tainio, 1999), it has been proposed that also co-operatives may use acquisitions as part of their strategy (e.g., Boscia, Carretta, & Schwizer, 2009; Boscia & Di Salvo, 2009; Jussila, Tuominen, & Saksa, 2008).

So far research on acquisitions (and mergers) in the context of co-operatives (and financial mutuals) has been directed at market position (Hingley, 2010), structural change (Liebrandt, 2001; Thompson, 1997), size and profitability (Kammlott & Schiereck, 2001), the influence of capital constraints (Richards & Manfredo 2003) or financial, managerial and regulatory influences on merger and acquisition (M&A) activity (Worthington, 2004). However, there is lack of detailed analyses of acquisitions by co-operatives in general (Richards & Manfredo, 2003) and co-operative banks in particular (Worthington, 2001, 2004). In this paper we start filling the gap by investigating how strategic decisions concerning acquisitions are reasoned in the context of co-operative banks. More specifically, we analyse data on one particular acquisition to generate new insights on the topic. While the additional insight created in this paper advances primarily research on the management of consumer-owned financial co-operative institutions, we believe that on the analytical level it is valuable for researchers and

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practitioners in other consumer-owned co-operatives as well.

The paper is structured as follows. We start with a description of the data and methods of our study. Next, we analyse data from the financial services constellation laying out major themes on the reasoning of OP Bank Group's acquisition of Pohjola. First, the acquisition is linked to and grounded on the purpose of co-operative banks: the creation of user-owner-value. Second, it is associated with growth demands arising from competitive interplay between the co-operative bank group and other major players in the Finnish financial services markets – an interplay that co-operative banks are seen as required participating in order to follow their mission. Third, the acquisition is connected with particular kind of diversification demands arising from limitations in options of a region-bound organization that does not have growth opportunities in its existing markets. Finally, we follow the evidence to put forward suggestions for future conceptual and empirical work as well as practice on the topic.

Data and Methods

The study at hand offers perspectives on one of the biggest acquisitions ever done in Finland as OKO Bank, owned by a group of co-operative banks (OP Bank Group), acquired in September 2005 a majority stake in Pohjola (a listed insurance company) and integrated it with the co-operative group to form the OP-Pohjola Group.[1] We chose this particular example, because of its unusual revelatory and an opportunity for unusual research access (Eisenhardt & Graebner, 2007; Yin, 1994). The access was allowed as the first author works as a bank manager in a local co-operative that it is part of the financial services constellation. Besides access, there are also other benefits to this engaged scholarship (i.e., "method in which in which researchers and practitioners coproduce knowledge that can advance theory and practice in a given domain" (Van de Ven & Johnson, 2006, p. 803). We believe that having one of us working in the organization under investigation provides us with deeper understanding of the acquisition and the context in which it took place. This should enhance the reliability of our study, as our interpretations are contrasted over a longer period of continuous observation.

The primary data of this theory elaboration paper (Lee, Mitchell & Sablynski, 1999) is qualitative (Denzin & Lincoln, 1994). More precisely, we use interviews and archival materials (e.g, annual reports of OP-Pohjola, Nordea and Sampo) to generate a model that helps to explain when and why an acquisition becomes a relevant strategy for a consumer co-operative (bank). The material was gathered by the first author. In order to mitigate challenges related to interview data (bias), the first author used "numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives" (p. 28). In year 2009 she interviewed 36 decision-makers of the OP-Pohjola Group: CEOs, managing directors and managers both in central units and local banks. The interviews lasted from one to even three hours as the acquisition process, decision and integration as well as other aspects related to the strategic management of the constellation were thoroughly covered.

In the attempt to compose a valid and reliable study, the recorded and transcribed material from the interviews was first studied systematically in order to understand the context of our study. After that we started conducting thematic analysis. Our approach was theoretical, which means that in contrast to coding for any themes related to acquisition (inductive thematic analysis), we were interested in the way the acquisition was reasoned across the data and coded accordingly (Braun & Clarke, 2006). The research question guiding our coding process was *"What are the main reasons to the acquisition and the formation of OP-Pohjola Group?"* After the coding process we started to analyse our codes and considered how different codes may combine to form an overarching theme (cf. Braun & Clarke, 2006). To give an example of the formulation of one of our three main themes, we noted that the acquisition was reasoned with creation of economic and social-psychological value to the user-owners, promotion of the economic and non-economic interests of the membership within the society, and representation of the national interests on the international level. Thus, it seemed that the co-operative purpose would be a unifying theme for these codes and the first of our three main themes was formulated (the other two being competition and geographic-boundness & lack of growth opportunities in existing markets). During the process we organized the data under these themes, analysed in detail, associated, and reduced it in order to reach the objectives of the study with the given foci. The following sections present the outcomes of our joint use of these techniques.

The Context of and Reasons for the Acquisition

In this section we describe the context of the acquisition of Pohjola by OP Bank Group. In addition, we examine reasons given to the acquisition in our data. In other words, we interpret how organizational actors talk about the acquisition and provide accounts of why OP-Pohjola Group was formed. The co-operative purpose is the first overarching theme.

The co-operative purpose provides the foundation for acquisition decision

The purpose of a firm is stated in its mission. According to Hill and Jones (2008), mission provides "the framework or context within which the company's strategies are formulated" (p. 1). In our data, the purpose and stated mission of co-operative banks provide the frame for their strategic management and OP Bank Group's acquisition of Pohjola makes no exception. As will be seen in the following, the acquisition finds its foundation in the complex purpose of co-operative banking.

First, in line with consumer co-operative literature (e.g., Jussila et al., 2008; Mills, 2001; Normark, 1996; Tuominen, Jussila, & Saksa, 2006), it is put forward in the data that the purpose of co-operative banks (owned by financial service consumers) is to serve their members by operating in businesses that have relevance to the members and are economically beneficial to them. Further, consistent with the ideas set forth by Jussila and colleagues (2008), it is maintained that Pohjola acquisition is central to realizing this purpose (of creating economic value to the user-owners). In more concrete terms, and in line with Fried, Lowell, and Yaisawarng's (1999) study from credit union context, it is explained that via the acquisition it is possible to create additional service benefits to the members. As our interviewees put it:

"I think that here is the answer to why this was worth doing; through the acquisition it came possible for us to provide the member-customers with concrete benefits for concentrating (their transactions with the co-operative bank) and not just some nominal rewards.. in other words the acquisition was not a smart business move for making money to the OP Group.. or how should I put it.. rather it served the realization of the co-operative purpose.."

Second, consistent with existing literature on consumer co-operatives (e.g., Jussila & Tuominen, 2010; Tuominen et al., 2006), our interviewees consider that the purpose of co-operative banks is to create not only economical, but social-psychological value to the members (see also Jussila, Goel, & Tuominen, 2012). This non-economic side of the purpose is referred to as another justification to the acquisition. In fact, it is maintained in our data that the mission statement of the group (cf. Hill & Jones, 2008) was modified to highlight this side of the co-operative purpose. As some of the interviewees state:

"We are for real in the promotion of member welfare and security and without this acquisition we would not have this opportunity."

"One of the premises of co-operative philosophy is the improvement of different sectors of life including economic prosperity and security.. thereby I think there is actually quite a strong ideological link between insurance business and co-operative philosophy."

"The mission (statement) was modified after the acquisition.. it is to offer our customers and the locality not only economic success, but also security… I think this fits our purpose very well.. "

Third, it is seen that the co-operative banking group exists in part to promote the economic and non-economic interests of the entire membership within the Finnish society. Pohjola acquisition is argued to substantially contribute to the realization of this purpose. As one of the interviewees says:

"Pohjola indemnity insurance, as an actor on its own, was a very influential actor in Finnish business life.. its integration to a major banking actor created an entity with significant power…thereby we were lifted to a totally different league resulting in many new opportunities in the circles of power..."

Fourth, it is maintained that representation of national interests on the international level is part of the multifaceted co-operative purpose. According to our data, also this aspect of the co-operative purpose could be realized through the acquisition. As our interviewees highlight:

"There was a lot of social demand for the acquisition, because at the time we did it there was a lot of talk about Finland turning into subsidiary economy leading to a loss of competence and capital as the ownership of companies are increasingly being transferred abroad.."

"It was well known that Pohjola is for sale... on the market and in business magazines it was printed several times that there is such a change that.. it was discussed whether Pohjola's ownership will go abroad or remain in Finland.."

"Pohjola was for sale and a buyer was sought for.. it was really good that the one found was a domestic company.. it was a union of blue and white capital.." [i.e., as the colours of the flag of Finland]

In sum, in a variety of ways, the co-operative philosophy and the different aspects of the purpose of co-operative banks are associated with the acquisition to provide reasons for the substantial strategic decision. Another major theme in our data on the rationale for the acquisition is competition. It is suggested that developments in the competitive financial services industry served as the impetus for the acquisition decision. We will turn our attention to this reason in the following.

Competition provides the impetus for acquisition decision

It is highlighted in our data that co-operative banks compete in an open market with other service providers. In other words, the strategists of co-operative banks do not see their organizations as existing in a closed system with their members. On the contrary, consistent with literature on utilitarian member commitment (Jussila, Goel & H. Tuominen, 2012), membership and patronage in the co-operative are voluntary and the members are seen as having the possibility to exit and take their customership elsewhere. In other words, the mission of the banks can be seen as defined relative to other service providers. In these relative terms, and consistent with the work of Boscia et al., (2009), Boscia & Di Salvo (2009) and Jussila et al. (2008), among others, our data suggests that the fundamental objective of the co-operative bank is to operate in a manner that members choose to maintain an active customer relationships with the co-operative as opposed to establishing one with a competitor (cf. Jussila, et al., 2012). In this context, as previous work maintains (e.g., Boscia & Di Salvo 2009), in order to secure the realization of their user-value-creating mission in the long-run, co-operative banks have to be active in developing their competitive power and in reorganizing their structure, when challenged by specific market, technological, and regulatory trends.

Prior to the acquisition, the banking industry had been in a restructuring process in order to adapt to the pressures of financial market globalization, European integration (Björkman et al., 2003; Boscia & Di Salvo, 2009; Kamlott & Schiereck, 2001; Stefanelli, 2009; Worthington, 2001), technological development, and the overall restructuring in financial services sector (Björkman, et al., 2003; Boscia & Di Salvo, 2009). Around year 2000 OP Bank Group had already engaged in a defensive operation together with insurance companies Suomi and Ilmarinen to prevent its competitors, Nordea, Sampo and/or Tapiola to conquer Pohjola. Ever since, the strategists of co-operative banks followed closely as the competitors built financial empires of their own by internationalising and merging (cf. Stefanelli, 2009).

Around the time of the acquisition, there were three leading bank groups in Finland: OP Bank Group (30, 5% share of all Euro-dominated loans in year 2004) and its investor-owned competitors Nordea (52%) and Sampo (14%) ("Federation of Finnish Financial Services", 2011; *OKO annual report*, 2004; *Nordea annual report*, 2004; *Sampo annual report*, 2004). In early 2005, Nordea Bank Finland Plc, a part of The Nordea Group (established in the middle of 1990s through a series of cross-border mergers and acquisitions in the Nordic countries; see Björkman et al., 2003), announced it was the leading financial corporation services group in the Nordic and Baltic Sea region (operating in three business areas; retail banking, corporate and institutional banking and asset management and life insurance and pensions). Sampo, on the other hand, announced it was a financial services group (comprising of the leading P&C insurance company in Nordic countries; Sampo Bank, an expert in retail and corporate banking services for customers in Finland and the Baltic countries; and Sampo Life, an expert in life and pension insurance products for customers in Finland and the Baltic countries). Also Tapiola (a Finnish insurance company) was starting its own banking business. S Group, a consumers' co-operative retailer, was also entering banking services.

According to our data, consistent with observations from other markets (Boscia et al., 2009), competition faced by the co-operative banks was extremely hard and the increasing pressure was not unnoticed by strategists of OP Bank Group. In year 2005 it was evident to them that without a bold strategic move, the group would be in a disadvantaged position as compared to their growing competitors. As one of our interviewees describes:

"There was quite much pressure to do something.. the competitors were starting their financial department stores.. some establishing their own bank (Tapiola & Sampo) and some buying insurance businesses (Nordea & Sampo) etc.. we were moving back to the traditional idea of financial department stores.. " (brackets added)

By the disadvantaged position, the interviewees referred to the fact that both Nordea and Sampo offered better benefits to customers (as compared to OP Bank Group) in the form of discounts of their services as both their bank- and insurance services were "wrapped in one packet". Both financial groups build new image of financial 'department store' announcing this combination of products (i.e., "all services under one roof") means better customer service and better benefits: customers do not need to go elsewhere. The target was to drop out competitors from financial markets and to strengthen the positions both Nordea and Sampo already had (*Nordea annual report*, 2004; *Sampo annual report*, 2004). As Nordea announced:

"Competition in the financial services industry is gaining intensity, leaving less room for the average players. In this highly competitive environment the key is to leverage on one's strengths, to master transformation and maintain focus and speed".

In line with the purpose and strategy of their co-operative constellation, the OP Bank Group top-managers decided to acquire Pohjola to strengthen the group's competitive position. As one of our interviewees puts forward:

"The fact that we proceeded with the acquisition in the first place was justified by our strategy.. we wanted to strengthen our position in this Finnish playground.."

According to our data, three questions were asked before the decision was made: (1) "are we ready to go into insurance business?", (2) "do we afford it?", and (3) "can we successfully integrate the new line of business into our structure?". After thorough consideration, each of the questions was given a positive answer. First, there was competitive pressure to go on the one hand and attraction to the move on the other hand. Thereby, the decision-makers saw ‘green light’. Consistent with extant literature from investor-owned contexts, it was believed that the positive effects of growth (Kammlott and Schiereck, 2001) in size via acquisition enables the co-operative bank to achieve important scale economies, additional market shares (Sevenius, 2003; Öberg & Holmström, 2006) and/or synergies (Ansoff, 1984; Porter, 1998; Schmitz & Sliwka, 2001; Walter & Barney, 1990; Öberg & Holmström, 2006) – even if the realization of these is not always verified in empirical studies (Stefanelli, 2009). In retrospect, the readiness to go is what kept the group in the game and evolving (i.e., avoiding the risk of regression). As our interviewees stated:

“..we realized that by integrating indemnity insurance and banking we get insurance customers from Pohjola to use our banking services and vice versa..”

“if we did not have indemnity insurance business today, I believe we would feel lonely and stagnant.. the acquisition has been extremely important factor considering the renewal and dynamism of the group..”

Second, it was calculated that the group as a whole does afford the acquisition. The background to this relates to a traditional debate in the co-operative movement. It is sometimes argued that co-operatives have a mandate to return all profits to their owner-members (Richards & Manfredo, 2003). However, it is also argued that co-operatives need to make some profit in order to invest in whatever is needed to survive competition (cf. Jussila et al., 2008). The member banks of the group had made profits and retained them as reserves to promote economic sustainability and strategic flexibility. As one of the interviewee says:

”we were able to do it as we had and still have strong solvency buffers so that the acquisition did not shake our basic operations..”

Finally, integration of the new line of business into the group’s portfolio was believed to be a success and lead to substantially stronger competitive position. It was believed that “we can increase the efficiency of our operation as we integrate our systems”. Further, one of the projected, realized, and still most potential synergies is the members’ use of their bonuses (gained from the use of banking services) to pay for insurance services. As our interviewees put forward:

”..we have an overwhelming opportunity as compared to the competitors to distribute profits to the customers in terms of lower prices and bonuses.. another co-operative group (S Group) has distinctively done it for a long time so why could we not do the same also here on the financial sector..” (brackets added)

“the promise we make to our customers.. as the use of bonuses is clearly understood, it will support this and make it overwhelmingly most important benefit of the acquisition..”

Linking back to extant mainstream literature, it seems that Porter’s (1980) and Ansoff’s (1957) lessons from diversification as common reason for acquiring other companies (Weston & Weaver, 2001; Öberg & Holmström, 2006) apply in the co-operative context, but for a different purpose. The co-operative group is not after increase of shareholder-value through greater sales volume obtained from new products or new markets or both (Ansoff, 1957). Instead, it aims at increasing value to the user-owner (i.e., member) by creating an opportunity for the member to increase the total sum of transactions with the co-operative group and, thereby, materialize additional value through use – contributing to the competitive position of the co-operative bank (cf. Jussila et al., 2008). As a top executive states based on his analysis of competition:

“I saw that we need another service that is valued by the customers and is closely associated with our financial services entity and this is precisely what indemnity insurance offers..”

Noteworthy, to moderate the risks of acquisition (cf. Grant, 2008; Porter, 1987), the chief strategists of the group considered it important that they do not step too far from their current activity – which might necessitate significant expanding of human and financial resources and detract focus, commitment, and sustained investments in the core businesses (Porter, 1987). Instead, as the above quotation indicates, they wanted to embrace the co-operative mission and ensure a long-term consistency in their strategy (Grant, 2008).

In sum, the co-operative bank group had monitored the competitive environment for closely for a longer time with a specific focus on the restructuring of the field. It had also actively taken part in the game before the acquisition – a move consistent with the co-operative purpose and strategy, and motivated by competitive dynamics and the better position that would be achieved through it. There was readiness to go through such a bold operation, financial reserves to do it, and a strong belief in successful integration – partly due to the fact that insurance business is close enough to the group’s original operation to include fewer risks and to provide strategic consistency.

In the following section we provide additional understanding to the question – why the co-operative banking group chose to diversify through acquisition. Here our data touches an evident but sometimes ignored limitation to co-operative bank strategy: geographic-boundness.

Geographic-boundness and lack of growth opportunities in existing markets push towards diversification

According to Grant (2008) diversification makes sense when a company has exhausted growth opportunities in its existing market (i.e., the context of competition for the provision of particular service or product) and can match its existing capabilities to emerging external opportunities (Grant, 2008; Harper & Vigurie, 2002). Further, Porter (1987) points out that a firm should choose this option only when the current product or market orientation does not offer further opportunities for growth. According to our data, the co-operative banks had arrived in such a situation prior to the acquisition and Pohjola offered a great opportunity. As our interviewees state:

"..we should grow somehow.. as our market share (in the existing market) is about 80 per cent … so where do we get the growth from" (brackets added)

"..the co-operative bank group stepped into something totally new.. we opened a door for an opportunity which I think was the key issue here.. it gave us a basis and potential for substantial growth.."

Even if co-operative banks compete in the same open market as commercial banks and, thereby, have to react to restructuring of their field and to the moves of their competitors (Boscia and Di Salvo 2009), something is different. Whereas investor-owned banks have the option of growing through acquisitions of banks with a similar service portfolio in other regions or countries, such option is not viable to co-operative banks since they are tied to serving a particular geographic area: the area inhabited by the user-owners (Boscia & Di Salvo, 2009; Jussila, Kotonen, and Tuominen, 2007; Tuominen et al., 2006). Thereby, a co-operative bank (or group) is more likely to acquire a firm with a similar geographic reach, but with a different business portfolio. Partly due to the geographic-boundness, successful co-operation in the financial industry requires activity and proactivity in industry restructuring games. As our interviewees note:

"..our position as a domestic actor was quite strong in some areas of business.. we could see a situation in which growth would not be possible and foreign establishment was not a strategic goal and still is not.. so diversification to another industry is a natural way for us to grow.."

"I believe it is our strength which this (co-operative banking) has always build on and most likely should be build on.. that we are part of and entirely locked in our surrounding environment, this operation area and these people.. we live or die together with them.." (brackets added)

"We have to change according to the needs of time and be active in our operating area.. to see forward and seize opportunities right away if there are no obstacles…it describes our way of operation that we do not want to look ahead just three months but 25 years.."

While geographic-boundness is a limitation, it is also seen as one of the strengths of co-operative banking. For example, acquisition within the same geographic area the acquirer already operates contributes to risk management. As an interviewee acknowledges: "..growth is more secure when pursued at homeland rather than abroad". Another related point is that the long-time horizon also moderates the risks as trends are carefully monitored over a longer period of time and decisions are not rushed: even if they sometimes seem to be made fast, they are actually end-products of longer strategic processes with a lot of high quality information involved.

In sum, the co-operative banks' typical role is to serve markets with clear geographic boundaries (the area inhabited by the user-owners) without the option of relocating to another environment. With this limitation, co-operative bank and constellation managers face in competitive conditions a dilemma of growth, which can be solved by diversifying through acquisition of firms with similar geographic reach, but different (and close enough) service portfolio. This can also be seen a safer way to grow than going abroad as the 'unity of fate' between the co-operative and territory it is bound to motivates co-operative strategists to monitor the territory in the long-run and have them equipped with quality information needed for good decisions.

Discussion and Conclusions

As depicted in Figure 1. our study shows that strategic management of co-operative banks is based on their purpose (mission) to create member value (cf. Jussila, et al., 2008). In a competitive (free market) context, co-operative banks face a need to follow when their competitors grow. However, co-operative banks are geographic-bound due to user-ownership and, thereby, they need to grow within a given geographic area (i.e., that inhabited by the user-owners). If there are no growth opportunities in the existing markets, co-operative banks need to diversify. As member benefits are always relative to alternative service providers, this type of growth strategy is particularly important for co-operative banks when competitors diversify to add value to their customers. In this context, if there is an opportunity to diversify through acquisition within the given geographic area, then acquisition is a viable option for a co-operative bank (group).

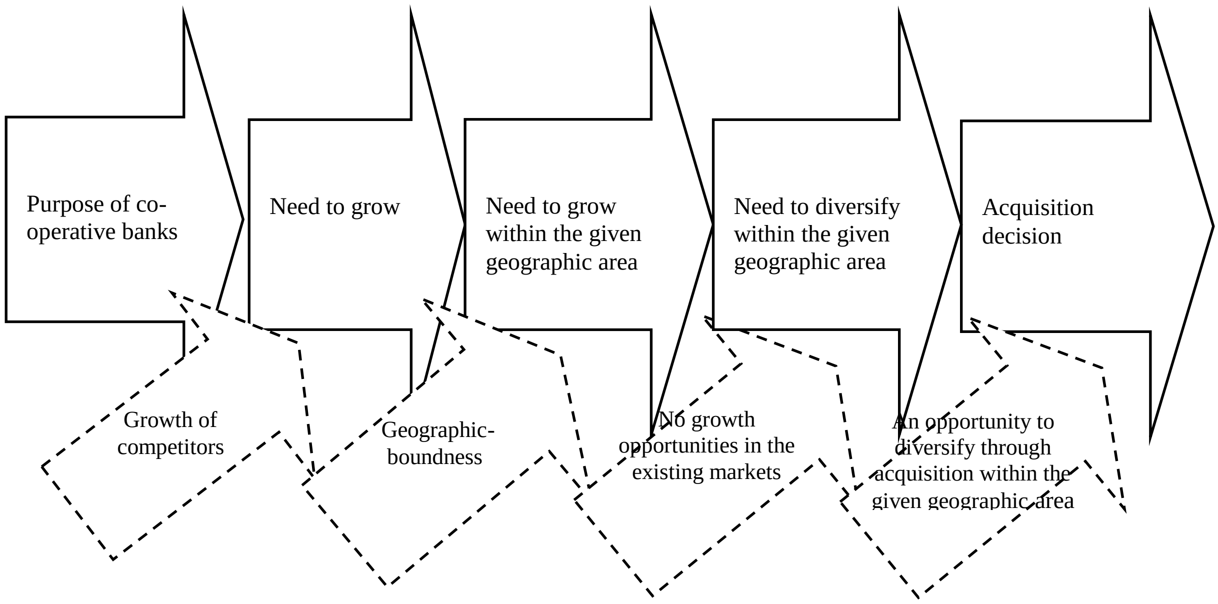

Figure 1. Diversification through acquisition: Executing co-operative purpose in the context of competition and geographic-boundness.

Our findings are consistent with prior literature on co-operative financial institutions and consumer co-operation (e.g., Boscia, et al., 2009; Boscia & Di Salvo, 2009; Jussila, et al., 2008), but does not fit the typical view of co-operatives as slow and stable organizations (Tainio, 1999). Further, our study extends knowledge on the role of acquisitions in co-operative organization and management (e.g., Richards & Manfredo, 2003; Worthington, 2001, 2004) as it sheds light on the reasons to (justification of) acquisition and helps us to understand the roles of co-operative purpose, competition, geographic-boundness, and growth opportunities in a decision to diversify through acquisition.

The utility of our findings for future research

As we move forward in the advancement of scientific knowledge in the area of co-operative banks and consumer co-operation, it is useful to realize that some of the mainstream strategic management doctrine (e.g., Grant, 2008; Porter, 1987) can be integrated into co-operative management theory. However, as the mainstream doctrine is created primarily with profit-maximizing entities in mind, scholars must be cautious in the adoption of these ideas. In our view, a safe way to do this is to investigate (with sufficient criticism) how the mainstream ideas are in practice linked to the execution of co-operative purpose - maximization of member satisfaction (cf. Jussila et al., 2008; Peterson & Andersson, 1996) - and under what circumstances are they to be applied and why. Thereby, we believe that an inductive approach is appropriate to elaborate theories of co-operative organization and management.

It is also useful to realize that the purpose of co-operative banks and consumer co-operation (that provides the frame for strategic management of these organizations) needs additional scholarly attention. In line with extant literature (e.g., Fried et al., 1999; Jussila et al, 2008; Mills, 2001; Normark, 1996; Tuominen et al, 2006) economic aspects (benefits) are central in our study. However, consistent with the lessons of Jussila, Goel and, Tuominen (2012), our study suggests that the purpose of co-operative banks is also to create social-psychological value to the members. In other words, value of co-operation and the co-operative to the members not easy to grasp. We believe it would be useful to come up with a definition of member-value that covers the different aspects (facets) that prior research and the study at hand give leads to.

Further, our work suggests that competition (cf. Grant, 2008; Porter, 1987) must be acknowledged when developing theories of co-operative organization and management. Participation in the interplay and reciprocal decision-making between different actors in a market-place does not seem like a topic that has received much attention in co-operative literature. In our view, competition should not be ignored. We believe that future research would benefit of longitudinal studies and a more processual view of competition and the execution of the co-operative mission under competitive conditions. In the competitive context the realization of the co-operative purpose and purpose based reasons to (justifications of) strategic moves may become visible. It is also in the competitive context that co-operatives may appear as more dynamic actors than they are typically seen. Why co-operatives are typically seen as slow and stable is itself a question worth answering. We believe that the view has to do with the fact that co-operatives typically counteract market failures and, thereby, are more likely to appear in less competitive environments. In other words, their previously depicted 'nature' may be more associated with typical environments than the co-operatives themselves.

Another useful avenue for advancement of knowledge on co-operative organization and management that can be identified based on our research relates to 'geographic-boundness.' There are several references to this condition of consumers' co-operative societies in existing literature, but none seem to go deep into the issue. In other words, it would be worth advancing the knowledge of the ways in which co-operatives are bound to their operating areas and what consequences this boundness has on co-operative organization and management. More specifically: how do co-operatives deal with the boundness? Are there, as our data seems to suggest, some positive effects on co-operatives of this 'live or die together' relationship with the operating area as compared to competitors that do not have such relationship with it?

Finally, while acquiring another organization, an IOF, and integrating it in a co-operative organization is likely to include substantial risks (cf. Porter, 1987), we found strong belief in success and in that risks can be moderated by staying close to 'home-base' in terms of both service and geographic reach. In our view, it would be interesting to study the integration from resources and capabilities –perspective as well as a cultural perspective. The co-operative bank group did have the financial resources to acquire the insurance company, but what were other critical resources and their role in the acquisition and integration? Further, what was the impact of the integration to the new born group? Were co-operative banks able to maintain their philosophy or was there perhaps movement towards philosophy of profit-seeking companies (cf. Richards & Manfredo, 2003) leading into a conflict between the operation of the group and member interests (cf. Kammlott & Schiereck, 2001)?

The utility of our findings for co-operative management practice

In the lack of well established co-operative management doctrine, co-operatives are always at risk of their management loosing sight of their purpose. Our study suggests that it is critical for co-operative (bank) managers to have the purpose and mission of their organizations crystal clear as they think of alternative courses of strategic action. However, what is useful for co-operative (bank) managers to realize is that they can adopt mainstream doctrine in their practice if they are (like researchers) critical in their use of ideas and lessons from investor-owned context. Based on what we found in this paper, it is safe to say that acquisition is one of the corporate-level strategic actions that can be applied to co-operative context for the members' benefit. Since these actions challenge the managers and directors, training on these issues should be provided (cf. Berger, Hunter & Timme, 1993; Rhoades, 1993; Shaffer, 1993; Worthington, 2001). Further, while the notion of the differences between IOFs and co-operatives may be obvious to those familiar with the latter, these differences are not recognized in mainstream strategic management literature that future managers are typically socialized to. Thereby, co-operative management training must guarantee the recognition of the differences.

Second, the co-operative movement may sometimes become too preoccupied with its internal matters without sufficient focus on the competitive environment. A useful lesson from our study is that it is important for co-operative (bank) managers to carefully analyze competition and acknowledge that the realization of the mission of co-operative (banks) is always relative to what the competitors do and deliver. In the Pohjola acquisition example the competitors had already got some lead in the market before the OP Bank Group managers realized there was need to move. It was competition and more precisely the decisions of the competitors that provided the impetus for the acquisition decision. To be safe, co-operative (bank) managers must be active in developing their organization's competitive power, products and services and proactive in reorganizing their structure. Otherwise they may not reach superiority over the competitors and their members may not choose to maintain an active customer relationship with the co-operative.

Third, it seems to us that consumers' co-operative societies (to which co-operative banks can be seen as belonging to) and their members might benefit of the use of diversification strategy. Our study leads us to suggest that co-operative (bank) managers should be looking in the geographic area they are bound to opportunities for delivering additional value to their members. As they enter new product or service markets, but remain close enough to their extant operations, there may be synergies to gain without too big a risk. If the co-operatives are (consistent with co-operative philosophy) hesitant to share profits (as patronage refunds), and want to search for additional service benefits instead, it is useful for co-operative managers to know that diversification is a viable option.

Finally, during the research process we have identified beliefs (put forward for example in media and public discussion) that co-operative banks should remain small and restrain themselves from growth. Our work may serve as a starting point for co-operative managers in their communication with different stakeholders to justify growth. Even if co-operative exist for different purpose than IOFs, similar strategic moves may be expected from them as they execute their purpose in a free and competitive market.

Note

1. Today the group provides banking, investment and insurance services as the biggest financial group in Finland, is made up of 205 independent, local member co-operative banks, central bank Pohjola Inc, (former OKO Inc) and OP-Pohjola Group Central Cooperative (OPK), including its subsidiaries and closely related companies. Pohjola Bank (former OKO Bank), founded in 1902, is a Finnish bank listed on the Helsinki Stock Exchange since 1989, with a market capitalisation (A and K shares) of approximately EUR 1,300 million as of September 9, 2005. Pohjola Bank is the most significant subsidiary of the Central Co-operative. OP-Pohjola Central Co-operative is the central institution of the amalgamation of the co-operative banks, tasked with supervising and controlling the Group's business in line with the jointly agreed strategy, profitably and through effective risk management, as well as in compliance with the shared rules and legal requirements. It also analyses the operating environment, collects information about financial sector changes and markets and answers for the Group's corporate image, reputation, identity and brand while building the Group's shared trustworthiness (OP-Pohjola Group annual report 2009). OPK is owned and governed by local regional banks, which in turn are owned and governed by their approximately 1.1 million local members. Co-operative banks in OP-Pohjola Group provide banking and financial services to private customers, firms and communities ("OP", intranet, accessed frequently in 2011).

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