Social Responsibility versus Building Social Capital - Mutual Aid, Reciprocity and Building Trust: Creating Shared Values and Norms

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The title of this breakout session is *Products and Services: Credit Union's Social Responsibility: Welfare and Education.* I am going to argue today that credit unions need to move away from the language of *Social Responsibility* to a language that is more reflective of what credit unions actually do – or should do. This paper has been written as a cautionary note of the potential threats that are particular to credit unions that don't value or honour their communities and members. I don't want to talk about services and products I want to go deeper and discuss the very heart of what credit unions do and what is in fact generated within credit unions – that of social capital.

Social Responsibility is a concept created by "for profits businesses" to enable them to have a "licence to operate" within the community. That is, their primary responsibility is to generate profit for their shareholders or their owners and the "donation" of funds enables them to be seen as good corporate citizens.

Credit unions are owned by the community – they already have an implicit licence to operate, they have been created to serve the needs of their community, not from a profit motive but from a social platform. A credit union by its very nature it not developed with the express intent to generate profits but to provide more than financial benefit to their members. Benefits such as somewhere safe to save as well as access to financial products that meet the needs of the community be that insurance, loans for education, health or agriculture. Credit unions are not created to generate a dividend (although always welcome if that is a by-product of their efficiencies). Through the provision of financial services credit unions, unlike other for profit businesses such as banks, generate social capital through their everyday operations and interactions between members.

Social Capital

Social capital is a useful tool to examine the positioning and value of this connectedness as it will allow us to position the individual, or in this case the member, at the core of the discussion. Social capital is a fiercely contested concept; it is contested for many reasons, not least due to the issue of how it is generated and where it is located and how it is expended. Social capital has been used as a tool to understand community participation for some time.

L. Judson Hanifan, the American Christian educator of the Progressive Era used the term 'social capital' in 1916. His definition started the trend of using it from a functionalist perspective. 'as an investment in the present that will reap larger public and private benefits at some point in the future.'[1]

Social capital is by its nature positive in all facets. According to Putnam (2000) and Coleman (1990), the outcomes are positive and its functional nature transfers into greater benefits for the community. For Putnam and Coleman social capital is different to other forms of capital in the benefits reaped. While other forms of capital benefit the individual, for Putnam and Coleman the benefits of social capital return to others rather than the individual, that is, others may reap the benefits rather than solely the individual who has put in time and energy.

Coleman views social capital as comprising two essential elements, the first being the social structures and the second being the facilitation of action by actors within the social structures. It behaves as other capital in as much as it is productive and enables outcomes that without it would not be possible. Where Coleman sees social capital deviating from other types of capital is that it is not separate from, but inherent in the structure of the relationship between the actors.

[1] Barbara Arneil, Diverse Communities: The Problem with Social Capital, Cambridge University Press 2006, pp. 4.

Bourdieu (1997) and Coleman (1990) however argue that social capital is within the social relationship not within the individual actors but they argue that it is realised by the actors. DeFilippis however argues that 'A community cannot *possess* anything. An institution or an individual can possess something, but a community cannot.'[2] DeFilippis sees communities as an amalgam of cultural, economic, social and political relationships that are at their core complex and intertwined. He argues that the communities themselves are the outcome and do not have agency and therefore are not the sum of its parts, that is, they are not simply just a collection of attributes of the individuals. They also contain power relationships across the network of political, social, cultural and economic spheres. This influence extends geographically outside of the relationships and networks within the community, an example of this may be the state or the macroeconomic environment or more broadly social and cultural norms.

Fukuyama is particularly useful as he positions social capital and how it operates within an international development context especially when we consider financial cooperatives from a broader Asia Pacific perspective. He looks at how social capital may contribute to poverty alleviation and economic growth (particularly pertinent in relation to credit unions). Fukuyama defines social capital as not only people working together but to also 'include any instance in which people cooperate for common ends on the basis of shared informal norms and values.'[3] Fukuyama defines social capital as 'shared norms or values that promote social cooperation, instantiated in actual social relationships.'[4] He argues that by utilising his definition we have a 'utilitarian way of looking at culture.'[5] He endeavours to look at culture through the functional role it plays in society. Culture for Fukuyama is a mechanism 'by which groups of individuals communicate and cooperate in a wide variety of activities.'[6] While he argues that you cannot measure and quantify culture in itself you can measure the 'functionality of culture in economic terms'[7]. Although he states that there is difference within various cultures and their ability to generate economic growth 'to put it in economics

[2] James DeFilippis, The Myth of Social Capital, Housing Policy Debate, Volume 12, Issue 4, 2001, pp. 789.
[3] Francis Fukuyama, Social Capital and Development: The Coming Agenda, SAIS Review vol XXII no.1 (Winter-Spring 2002) pp. 23.
[4] Ibid, pp. 27.
[5] Ibid, pp. 27.
[6] Ibid, pp. 27.
[7] Ibid, pp. 27.

jargon, not all societies have equal stocks of social capital.'[8] Fukuyama argues that the inherent nature of communities do indeed have agency and that culture is the tool within those communities that enables social capital to be generated and expended.

When we examine the Australian credit unions we see that they are some of the most sound financial institutions in the region, however, they for the most part serve the middle class (due to regulation amongst other things).They look smell and taste like banks, they have the same products, same services, same branch networks, and they are linked in with bank ATMs, etc. The question must be asked, why are credit unions in Australia acting like banks. The simple answer is that they are regulated like banks. Although I think this answer is too simplistic, we need to dig a little deeper. We need to consider the professionalization process a credit union goes through, we need to look at human psychology in relation to control and rational choice, we also have to consider the psychology of the consumer and the economic social mobility of the average consumer, the change in the connectedness of the consumer to their community – that which has been lost.

I want to argue that Australia has something to learn from the Asian experience. For the most part Australian credit unions no longer generate social capital, they no longer are a platform for the development of mutual aid, they no longer are a mechanism to generate trust in their communities, they no longer provide opportunities for members to develop shared values and norms.

Credit Unions generate trust and provide opportunities for engagement in mutual aid activities in Asia which differentiates them from other financial institutions. Asian credit unions provide communities with ways to strengthen their social bonds and to help one another and create community solidarity. Australian credit unions unfortunately for the most part only provide financial products and services.

Social Responsibility or Corporate Social Responsibility (CSR) has been called many things such as triple bottom line reporting, etc but it is not an adequate tool for credit unions, not

[8] Ibid, pp. 27.

adequate because it only works within certain parameters, that is, it does not build social capital, it is not a tool that credit unions can necessarily use to create the shared values and norms that traditionally credit unions need to be strong and vibrant and connected. This is not to say that it is useless, it certainly helps communities with their agendas – it can feed the homeless, contribute to finding cures for cancer, it can assist in the planting of trees and make our communities greener. But does it create a sense of belonginess, does it create social cohesion, generate trust, provide a platform for reciprocity therefore creating shared values and norms and connectedness.

It has been called chequebook philanthropy to assuage the guilt of corporations to justify their profits and be seen to be good corporate citizens. Credit unions have no need to do this, because their very DNA is part of the community. Credit unions (should) only represent the interests of the community.

Value of Building Social Capital

Conversely to a bank I want to argue that social capital within a credit union is as valuable, if not more valuable, than economic capital. Like its counterpart it needs to be treated as a commodity that needs to have attention. Credit unions need to protect it, need to invest in it and need to value it as they do economic capital. Social capital gives credit unions durability and sustainability as it is generated and expended.

I am undertaking further research to look at the types and quality of social capital that is generated within credit unions in a diverse range of countries such as Cambodia, Timor Leste and the Solomon Islands. These are countries that have experienced civil unrest and genocide, huge population upheavals and ruptures in civil society. Some of these countries are made up of diverse cultural identities, languages, and cultural practices. As I view the dynamics in these emerging cooperative movements and consider the journey of the Australian financial cooperative movement throughout the last 70 years we can see on the one hand the commonality of pathway that is taken by all financial cooperatives. A pathway of maturity whereby there is significant growth in membership, development of sophisticated products and services and a professionalization of the financial cooperative where it is no longer run by volunteer members but by professional skilled and paid staff. There is a lifecycle within the development of a credit union. The difference within that lifecycle lies within the cultural environments credit unions operate in. It is the individual and their culture being bound by the connectedness that impacts the way their credit union functions and the meaning that it has for the community.

Credit union history in Australia has shown us that we have inverted the model, that is, that when credit unions begin there is great community involvement in the operations and decision making. The community decides how their credit union will be run; control is in the hands of the members. In the last 30 years that model has changed in Australia, the power is now in the hands of the CEO or General Manager and the Board of Directors with the members sidelined to only being able to vote at AGMs. The model has changed from a bottom up to a top down approach – members are told what financial products and services they will receive and the pricing of those products. Members no longer have an ability to influence their institution to any meaningful extent, they have become receipting clients or customers of the institution rather than active engaged participants.

Embezzlement of Social Capital

This paper argues that there has been an embezzlement in Australia of that social capital that was generated and accumulated within the institutions. Embezzlement, not in the sense that an individual or a group stole this form of capital, but in the sense that the membership as a community has allowed both internal and external forces and influences to devalue and rob what is, as this paper argues, and what the literature tells us, at the very core of cooperatives. Social capital like other forms of capital has value which needs to be protected, invested in and grown.

The embezzlement or destruction of social capital can be witnessed through the professionalization that has seen some credit union directors in Australia paid large sums of money to sit on credit union boards. Some would argue that this has been brought about by regulation and the inherent risks that they take on by being on the board of a financial institution. We no longer find members engaged in their credit union to the extent that come election time at the Annual General Meeting (AGM) many members feel that they are unable to participate at a board level, with many boards ceasing to turnover their board positions very often.

The obliteration of social capital is no more evident than through the merging of credit unions into larger and larger institutions that have no roots into their community, no mechanisms for their members to engage neither in the institution nor with other members. It is in these very places where social capital is generated and expended. The process of consolidation then moves to a process of demutualisation. By the time demutualisation occurs members are so far removed from their credit union and feel no connection that they vote to take a dividend for their share rather than see the value of the institution to them and their community. The social capital that was once central to Australian credit unions has all but disappeared but for a handful of examples. Credit unions for the most part in Australia have ceased to generate the vital elements of social capital, that of trust and mutual aid and connectedness *within* and *between* community members.

Generation of Social Capital or Chequebook Social Responsibility

The Australian experience is mentioned here as it is in stark contrast to the Asia Pacific region whereby credit unions often form the basis for the regeneration of trust within a community such as that seen in Cambodia or to provide an avenue for learning and capacity building as seen in Timor Leste. The Myanmar Savings and Credit Societies are a tool through which many younger people have their first taste of democracy through voting in their committees and boards. In Timor Leste not only are credit unions the only financial institution many rural people have access to, they are more and more seen as a tool to heal the wounds of a very fractured society that has suffered civil conflict and division.

Australian credit unions do however expend large amounts of funds through their community investment programs, far greater than their counterparts in other financial institutions. Community investment is far different than that of building social capital. Some opponents refer to this as chequebook Corporate Social Responsibility, whereby the guilt and responsibility is alleviated by simply writing a cheque and putting it into the annual report as the behaviour of a good corporate citizen. This of course does not allow credit unions in Australia to provide a platform for members to engage with each other, to help run their institutions, to contribute back to their community or to connect with others in a way that enables them to share values and create meaning within the group. There are now only a handful of credit unions that have members who volunteer within the organisation, who are able to experience that sense of belonging and of connectedness and community.

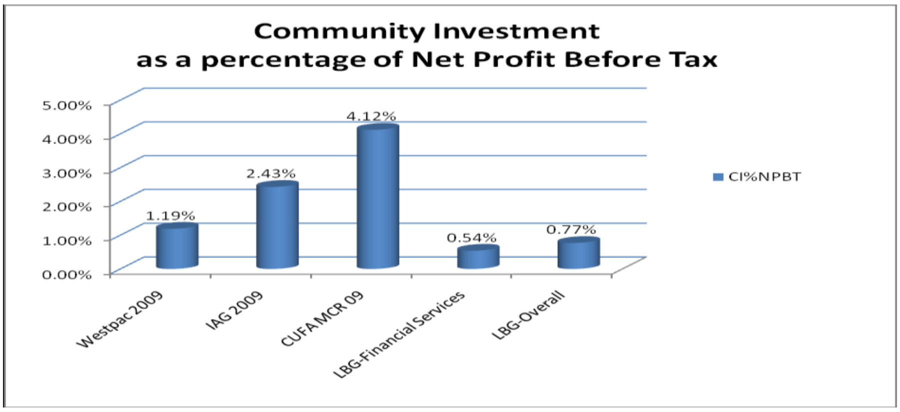

Figure 1 – Credit Union Foundation Australia's Mutual Community Report 2009[9]

Participation or Professionalization

Jarley has argued that unions can have more meaning and value by capitalising on the 'naturally occurring social networks that tie members together in the workplaces.'[10] He argues against a 'service model' or what is usually termed in the credit union sector as the "professionalization" and contends that if unions moved away from this type of organising model to one where there was social capital formation and there was a focus on their mutual aid role, their membership would grow as would their engagement through greater connectedness and sense of ownership.

Historically Australian credit unions were an extension of what has been called 'dense social networks and strong ties that characterised many working class communities.'[11] 'People who lived, worked, and socialised together formed very strong bonds, bonds that produced shared visions of problems and solutions, facilitated the development of trust, and instilled

[9] Australian credit unions are denoted as CUFAMCR09.
[10] Paul Jarley, Unions as Social Capital: Renewal through a return to the logic of Mutual Aid? Labour Studies Journal, Vol 29, No 4, Winter 2005, pp. 1.
[11] Ibid, pp. 4.

generalised reciprocity norms.'[12] Voluntary collective action is a natural process that occurs with groups so tightly tied together. The credit union activity was a place and an opportunity to reinforce relationships and common values. 'Membership itself was an act of generalising reciprocity'.[13] What is clear from the literature is the importance of the "opportunity" to undertake activities of reciprocity and to have a forum to develop bonds and shared values that need to be maintained and strengthened.

This is an a salient point for credit unions, as they mature and develop they go through several phases, one in particular I have mentioned is the professionalization of the institution whereby volunteers are phased out and paid staff are bought in which includes professional management. The role of the member decreases in proportion to the professionalization of the institution. This has its benefits as well as its drawbacks. As a credit union grows in membership it tends to grow in terms of its sophistication of its products and services, which is demanded by its membership on the one hand, but it also requires technically skilled staff on the other hand to implement and manage. As credit unions push away their members working as volunteers, the ways in which a member can participate within their institution becomes limited to committees, the credit union board, and voting at AGMs. The member becomes a receipting client/customer of the institution rather than an integral part of the operations and therefore the opportunities for the generation of social capital become extremely limited to almost nonexistent.

Meaningful Participation

In contrast when we look at the emerging credit union movements in the Asia Pacific region we see an environment that mirrored that of the Australian movement of perhaps the first 30 to 40 years. Credit unions in the Asia Pacific region have meaningful engagement of the members in the institution, where decision making is in the hands of the members and not in the hands of "professionals". We don't see a branching strategy[14] that dilutes member's connectedness and replaces trust for that of policies, procedures and collateral. In the Asia

[12] Ibid, pp. 5.
[13] Ibid, pp. 5.
[14] Branching strategy refers to the practice of opening up multiple branches in locations other than those of the original membership; this attracts new members and therefore dilutes the ownership of the original membership. Due to the geographic spread of membership this further fragments the ability to have shared values and shared meaning within the institution.

Pacific region we see members who have a stake in their community and not customers focussed on the best priced financial products. We see members who understand their community needs that are based not necessarily on economic outcomes but on outcomes for the whole community.

A good example of this approach can be found with the women of Choiseul, a remote western island of the Solomon Islands where there are no financial institutions other than that of financial cooperatives which are called Savings Clubs. The women in this area have run and developed their savings clubs for a number of years on the premise of the need to be linked into the formal monetised economy. To do this the individual women generate money by selling agricultural produce at the markets rather than the usual informal exchange and bartering that is the norm in their community. The funds from these sales are then deposited into the savings clubs. The savings club for the most part enables the women to save and lend for their children's education whereby group decisions are taken as to which families can borrow to send their children to school. Without this cooperative activity none of the groups' children would get an opportunity to attend school located on another distant island, usually in Gizo or Guadalcanal a good two to three days boat ride from the Choiseul.

The networks that enable the women of Choiseul to undertake this activity are interwoven with the cultural demands of their everyday life. Their networks allow them in the first instance to organise into the savings clubs, secondly they have to have agreement from each other and that of other market sellers on the agricultural produce that each of them will sell at the markets, thirdly they need to work together to come to consensus on who is able to borrow from the savings club. They have to seek permission from both the village chief to run their savings club and from their husbands to participate. They also have to register their club with the Solomon Islands Credit Union League. These challenges may be insurmountable should it not be for the strong social networks that enable them to move through this maze of social and regulatory requirements and permissions. These interactions are not necessarily based on the rule of law but on relationships and connections and networks. The networks and social ties have huge impact; in this case it could be the opportunity for their children to get an education.

The savings clubs in Choiseul are a good example of social capital be generated and expended at various levels from the individual level through their networks to a organisational and community level whereby there is meaningful participation between individuals intersecting with internal groupings and at the same time interacting with external organisations outside the immediate community.

Accumulation of Social Capital

This is a reinforcing process whereby the accumulation of social capital has a compound element which is derived from those networks. It is within dense networks that there are favourable conditions for the generation of social capital. A dense network that encompasses strong and frequent interaction, as the literature tells us, is the optimum environment for social capital generation. As Tsai and Ghoshal (1998) have argued it is within this dense framework that people come to trust one another because they have the forum and ability to develop common goals, values and points of view. In addition to this as Ouchi (1984) points out the collective activity limits the opportunities and possibilities of opportunistic behaviour which in turn can lower the transaction costs (Lazega 2000). Trust is generated as resources are shared and circulated with the understanding that there is a favour being given that may be returned at a later stage. 'Generalised reciprocity norms help to improve the durability of social capital, making it less vulnerable to erosion through exit of any single individual from the network.'[15] But without the platform or forum this simply cannot occur.

[15] Paul Jarley, Unions as Social Capital: Renewal through a return to the logic of Mutual Aid? Labour Studies Journal, Vol 29, No 4, Winter 2005, pp. 4.

Disintegration of Social Capital

It is within the relationship structures that there has been a loss of social capital within Australian credit unions. What I have called embezzlement could also be viewed as the disintegration of social capital through the merging of credit unions and the distillation of "community ownership". During this process there has been a destruction of those frequent links where shared values and norms are created and the ability to participate in activities of reciprocity has seen a degradation of trust within those institutions and within the membership. Members have been essentially sidelined from the operation of the "business" and have lacked the forum and opportunity to develop and build relationships and common ideas and values around that interaction.

Australian credit unions were a vehicle for social capital formation and maintenance[16] but as they were professionalised and became highly regulated and controlled by not only the credit union boards and management but also by government authorities such as Australian Prudential Regulatory Authority (APRA) they now no longer allow for the same social capital formation and maintenance that occurs in emerging credit unions and that which can been seen throughout civil society in emerging economies.

Mutual Aid and Reciprocity in Asia

Throughout Asia, there is plenty of evidence of social capital generation and the associated benefits that strengthen and improve the health of communities. The Women's Coop in Sri Lanka has over 70,000 members and seeks to improve the lives of their communities who are very poor. The financial cooperative is their core focus however they undertake a number of mutual aid activities such as health committees through which they operate a number of health clinics for their members. The Women's Coop have a disaster committee which they mobilised and assisted their fellow countrymen during the 2004 tsunami. They have educational scholarships that are awarded to member's children who are academically gifted. There is also a hospital building committee, and an agricultural committee., There

[16] Ibid, pp. 4.

are many different ways that members are able to interact and engage with each other that not only provide a platform for mutual aid but to also create and maintain shared norms and values that strengthen their communities.

Cambodia, a country and financial system ripped apart during the Pol Pot regime is only now beginning to rebuild. Trust in Cambodia was decimated during that period, trust in both the financial system as well as between neighbour and neighbour. Trust is being rebuilt through communities coming together to solve community problems. It is through financial cooperatives that communities are relearning the value of reciprocity and connectedness. It is through the generation of social capital within these communities that we see farmers pooling resources to work with each other at harvest time and to join together to jointly purchase irrigation pumps and farm machinery. This type of cooperation would have been unimaginable only 10-15 years ago.

These are just a few examples where connectedness, trust and spirit of reciprocity through the act of providing financial products and services through the cooperative model generates social capital that is expended on strengthening and improving the health of communities.

What is CUFA Offering to Encourage Participation?

CUFA is endeavouring to gain greater engagement in credit unions by providing programs for people to participate and understand the importance of credit unions to communities. Cambodian Challenge program – just completed its third year Challenge, the Kokoda Trail Challenge in PNG, the Community Champions Program, Community Projects emanating from the Australian Development Education Program, the Pacific Credit Union Technical Congress, the CEO Study Tours, next year's Fiji Leadership program are all ways that Australian credit unions can get back to their roots and rediscover what credit unions can mean to their communities. Not necessarily in a conference but in a hands on experiential way – touch, taste and smell – not just look and hear!

I argue that while corporations seek to write a cheque to alleviate their responsibility, credit unions have a much richer way of engagement – they have the ability to truly build social capital from a practical perspective not just from a financial perspective.

Credit unions offer individuals and communities a way of building trust and undertaking acts of reciprocity and building elements of mutual aid which is how communities can be strengthened and become both economically and socially more cohesive. They do this by creating share values and norms through this process.

What are the lessons learnt from Asia?

So what are the lessons that can be learnt from Asia? While there are issues and challenges all through the credit union movement in Asia and I know that often Australia gets held up as the example of best practice from a governance and financial management perspective we have a lot to learn (or perhaps to relearn) from Asia and the Pacific, and the way credit unions operate within communities.

Credit Unions in Asia on the whole appear to be able to engage their communities, they are entrenched within their communities, they provide opportunities for their members to be involved in the decision making, they allow their members the ability to be involved with mutual aid activities together, they create ways in which members are able to influence the organisation and connect with other members. They generate and develop a shared institutional culture that enables people to connect to each other not just to the institution. There is social capital that is generated and expended through these practices and performances. Social capital that is as valuable as economic capital.

So in summary the value of social capital within financial cooperatives, unlike other forms of capital is not always evident and is not always easily quantified, expended or converted to social or community outcomes. It has however, in many respects, based on the historical data from the Australian credit union movement and based on the recent experience from the emerging financial cooperatives in the Asia Pacific Region, a more intrinsic value to the way communities function and from a broader view the way civil society interacts with its government and its institutions.

Social capital generated through financial cooperatives provides the lubricant necessary to enhance everyday life for the individual and the community. Without the platform upon which to build connectedness, trust and reciprocity credit unions would no longer be able to generate social capital nor would they have relevance to their communities. It is within the experience of the emerging Asian and Pacific credit union movements we see increased strengthening of trust and reciprocity along with strong management and durable forms of governance.

The challenge for all financial cooperative movements in the Asia Pacific region is finding the balance between drawing upon the uniqueness of individual cultures that generate and maintain social capital stocks which bind people together, strengthen relationships, and ensure communities stay healthy while at the same time making sure that operational and governance practices protect the member and their savings. The value of social capital within the everyday operation of financial cooperatives not only enhances cooperation and trust within the institution but that trust and reciprocity also permeates out into the community enhancing peoples quality of life providing opportunities that would otherwise not exist.