

Member Trust's impact on Member Satisfaction and Organizational Performance: Development of a Conceptual Model

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Abstract: Here an attempt is made to develop a conceptual model for identifying positive cooperative behavior in member organizations, especially cooperatives, leading to successful organizational performance. The recognition of member satisfaction as a crucial parameter to be strategically evaluated in improving the organizational performance is emphasized in this paper. The researchers attempt to determine the influence of member behaviour, specifically member trust, on organizational performance and, in turn, the influence of organizational performance on member satisfaction. The influence of member satisfaction, in return, on the member trust as a feedback is also discussed. The feedback loop, it is then theorized, can improve organizational performance as part of a virtuous cycle or lead to a decline in organizational performance as part of a vicious cycle. The moderating influences of member participation, member attributes and member attitudes on member satisfaction are discussed as these can determine whether the organizational performance improves or declines over a period of time.

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Part: 1- The Introduction

The role of member satisfaction as a parameter strategically influencing organizational performance has not been systematically brought out till date. The extensive research on the member behaviour in cooperatives, in general, and credit unions, in particular, has dwelt at length on various terms like member trust, organizational performance and member satisfaction (Barney and Hansen (1994); Donaldson & 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.

The authors have attempted to develop a causal model, linking member trust to member satisfaction and organizational performance. The ultimate purpose is to see whether there is a model that can distinguish a successful cooperative from a failing one based on how the members behave.

The remaining part of the paper is structured as follows. The second part elaborates the terminology. The third part describes the model development. The paper then comes to an end in the fourth and concluding part.

Part: 2- Elaboration of the Terminology

The main terms involved are elaborated as below.

Cooperatives

Member Organizations (MOs) are distinct from Investment Oriented Firms (IOFs) in that MOs are member oriented rather than capital oriented in their approach to allocation of benefits. Cooperatives are just one type of MOs. Clubs and associations are also examples of different types of MOs. But cooperatives are distinctive in that the economic as well as the social interests of the members are taken care of.

According to the report of ICA Cooperative Congress, 1966, Cooperatives are member organizations with four critical principles.

- 1) Voluntary and open membership
- 2) Democratic control (one member, one vote)
- 3) Limited interest on share capital (members' capital deployed should be paid fixed, limited interest)
- 4) Patronage dividend (Surplus (Profit after giving out dividend on shares and allocation of funds for the development of the cooperative) should be distributed in proportion to the usage of the cooperative's facilities)

Alternatively Fairbairn (1994) describes cooperatives 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." In cooperatives, credit unions are considered as ideal

cooperatives as they are both producer cooperatives and consumer cooperatives (Taylor, 1971). So here, when we say cooperatives, we are focusing mainly on credit unions.

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 an expectation that one would not be exploited by another (James, 2002). This expectation is based in part on perceptions of trustworthiness and competence of the entities in which the trust is placed, James & Sykuta (2006).

Organizational Performance

Organizational performance, for a credit union, 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 cooperative banks (similar in nature to credit unions elsewhere) are assessed for performance by an adapted version of CAMEL rating, called CAMELS (Additional element S-Systems and Control) rating, by the Central Bank, namely, the Reserve Bank of India. This adapted rating was recommended by the Report of the Working Group on Rating System for Urban Cooperative Banks, Reserve Bank of India, 2002 and acted upon by the urban cooperative 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.

Member Satisfaction

Member Satisfaction is what the member experiences when the objectives that he had in his mind at the time of joining is met by the organization. Fornell *et al.* (1996), defines customer satisfaction in similar lines where customer satisfaction is assessed in terms of customer expectations. The objectives, here, may be taken as that of fulfilling one's social and economic needs, rights, duties and responsibilities.

Part: 3- Development of the Model

The need for a Conceptual Framework

The organizational performance of a cooperative cannot be evaluated just in financial terms. The satisfaction level enjoyed by the members is also a crucial, but often ignored, parameter for the long term success as a cooperative. Members are key stakeholders in Cooperative 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.

Drivers of Organizational Performance

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 (Barney and Hansen, 1994; Hansen *et al.* 2002; James and Sykuta, 2006; Nilsson *et al.* 2009; Golovina and Nilsson, 2011). As RoyChoudhary, 1996 points out, the relationship of self-governance and of an external authority in a cooperative 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 is defined as the extent to which one believes that the other will not act to exploit one's vulnerabilities (Barney & Hansen, 1994). This results in the willingness of the members to keep patronizing the cooperatives with their business, (Fulton, 1999). Hansen *et al.*, 2002 argues that mutual trust among members lead to group cohesiveness.

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 cooperative 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". In other words, *Lokasamgraha*, can be equated to Group Cohesiveness.

Thus, these two twains of the western and eastern thoughts are brought together to form a common thread as a unified concept of Group Cohesiveness.

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 & 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.

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 cooperative. 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.

Cooperative banks, being complex in administration, it is cognitive trust of the management that is significant in influencing organizational performance (Osterberg and Nilsson, 2009). Group cohesiveness also significantly influences the members' assessment of the organizational performance (Hansen, *et al.* 2002). Thus, these two factors, group cohesion and trust in management, lead to organizational performance.

Impact of Organizational Performance on Member Satisfaction

Organizational performance, in turn, leads to stakeholder satisfaction. Here members' assessment of organizational performance becomes an intervening variable between the two independent variables, group cohesiveness 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 cooperatives, the key stakeholders are the members and member satisfaction will be dependent on organizational performance.

The feedback loop

The role and purpose of cooperative 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 credit unions. Organizational purpose is dictated by key stakeholders (Rogers & Wright, 1998). For cooperative banks, the key stakeholders are the members. The objective, in other words, is to satisfy the members.

According to Berrone *et al.* (2007), member satisfaction leads to performance. Also stakeholder satisfaction leads to good organizational performance according to Donaldson & Preston (1995). So member satisfaction influences and improves organizational performance through a virtuous feedback loop.

Moderating influences on Member Satisfaction

The researchers have identified three sources of moderating influences on member satisfaction as follows.

I) Member Participation

The most important moderating factor is members' participation (Osterberg & Nilsson, 2009). 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:

- Voice/protest: negative and creative attitude,
- Exit: negative and non-creative attitude,
- Involvement: positive and creative attitude,
- Loyalty: positive and non-creative attitude"

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

II) Member Attributes

In the context of farmers' cooperatives, the important member attributes, in general, in cooperatives are farm size, farm income, off-farm income, membership period (Bhuyan, 2007). In credit unions, 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 cooperative. So the focus should be to keep the income of the member high through the efforts of the cooperative and to retain him as a member as long as possible through innovative and imaginative measures.

III) Member Attitudes

The commitment to and belief in the cooperative ideology is an apparently important moderating attitude. But there is a difference in the commitment to the cooperative movement based on whether the members are young or old, Hakelius (1999). Anyway, the more the member believes in the ideology of cooperatives, the more likely he is to be satisfied with the cooperative. Therefore education of the member about the cooperative way of life is essential to the success of the cooperative.

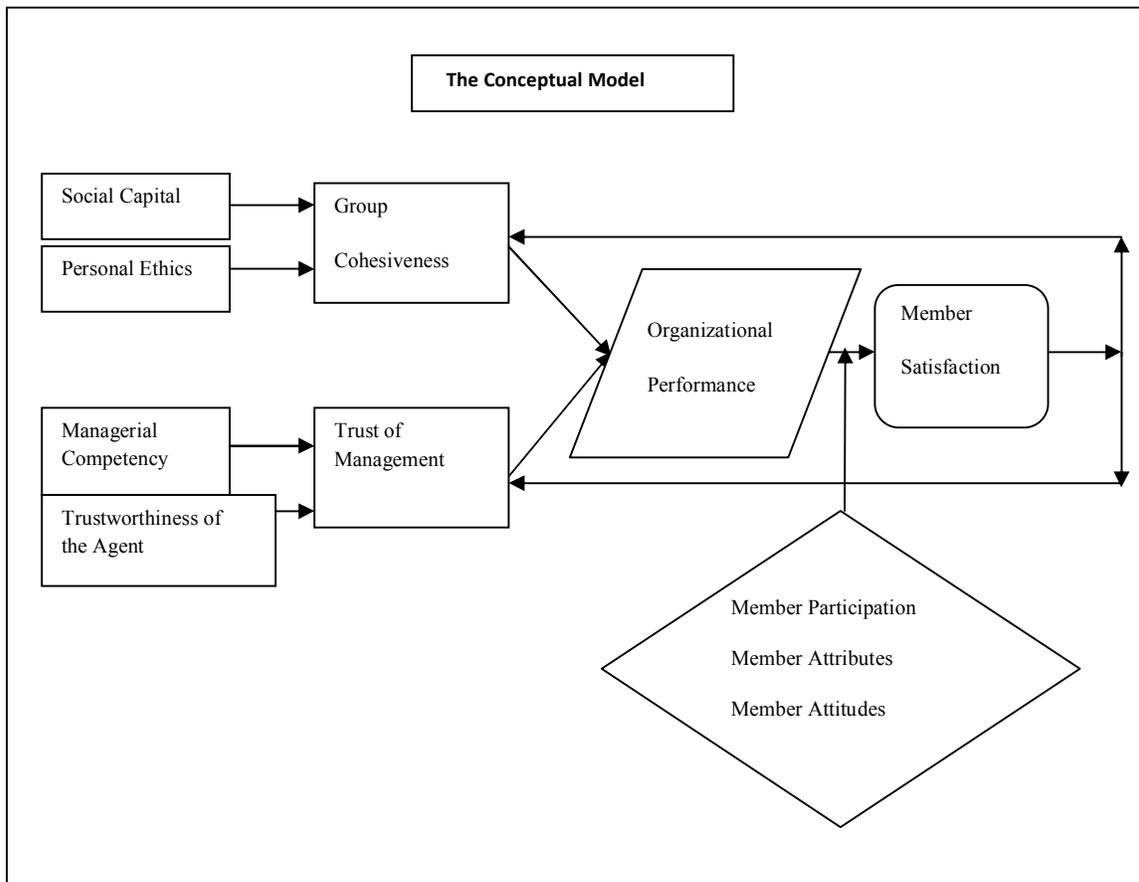
All these moderating influences, as is shown, positively influence the impact of member trust on member satisfaction.

However, if the moderating influences impact negatively, there can be member dissatisfaction. The 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 group cohesiveness and bureaucratization negatively influences trust in top management. These negatively influence the organizational performance.

The Conceptual Model

So the model is built, first considering the drivers of organizational performance, namely group cohesion and member trust of 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 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 cooperative’s organizational performance, setting the cooperative’s path on a virtuous cycle upwards. Otherwise, the organizational performance can spiral down a vicious cycle to decline.



Part 4: - The Conclusion

This research highlights the need to seriously consider the strategic role that measurement of member satisfaction plays in the organizational performance of a cooperative. By the introduction of the concept of member satisfaction into the relationship between member trust and organizational performance, the researchers propose 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 cooperatives 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 cooperative, some cooperatives go ahead and succeed while some others fail. We hope future researchers will look into this area and shed more light into this phenomenon.

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