

Why AMP and IOOF went rogue

Written by Andrew Linden, Sessional Lecturer, PhD (Management) Candidate, School of Management, RMIT University

The 'M' in AMP stood for Mutual. Like another former mutual, IOOF, it was owned by, and set up to benefit, its members.

Both AMP and IOOF were presented with [draft findings that they acted against the interests of their members](#) at the conclusion of the round five hearings of the Royal Commission into Banking and Financial Services.

Although both are now purely commercial organisations, each has marketed itself as different from the others because of its [cooperative history](#) and [founding ethos](#).

So what went wrong?

The early twentieth century German sociologist Max Weber argued the culture of an organisation was the product of its history, institutional structure and a consciously held shared ethos of its members. It was a different view to that of mainstream economists who these days assume organisations attempt to maximise profits and that of so-called behavioural economists who assume cognitive biases make decision making less rational.

In his book the [Protestant Ethic and the Spirit of Capitalism](#) Weber outlined the ways in which the ascetic sensibilities of the Protestant sects had influenced the growth of commerce in post reformation Northern Europe and 19th century America. They were concerned with thrift as much as with profit.

The 'P' in AMP stood for Providence. The AMP was set up to help its members save.

Disengagement, demutualisation and corporatisation changed AMP and IOOF forever

The move away from the government provision of services in the 1970s and Margaret Thatcher's famous claim in the 1980s that there was "no such thing as society" saw a move

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away from mutuals and cooperatives in tandem with a move away from thrift.

In the 1990s AMP and IOOF ‘[demutualised](#)’, becoming companies listed on the sharemarket. Value that had been accumulated for generations was turned into tradable shares. Members who voted for the change were accused of intergenerational theft. Those who didn’t feel the least bit thrifty cashed-out by selling their shares.

[Laws were changed](#) to make it easier.

From a Weberian perspective the current governance problems of AMP and IOOF can in part be attributed to [abandoning of the original founding ascetic ideal](#) in favour of an unconstrained focus on profit maximisation for the benefit of shareholders rather than members.

The change in the culture of such organisations [in Australia and overseas](#) was accelerated by decisions to put independent directors and executives with “commercial savvy” on boards.

Turning back the clock won’t work

While Weber suggests organisations founded on a particular set of values can be [highly disciplined](#) the process of demutualisation/listing can create the conditions for misconduct. Appointing directors and outside managers who have no understanding of the mutual’s ideal allows an aggressive commercial culture to take root. The argument can be extended to former public sector corporations such as the Commonwealth Bank.

Despite [calls to wind back the clock](#) very few former cooperatives or public sector entities have. Once they have taken even a half step to corporatisation, as did Telstra, the Commonwealth Bank and the Murray Goulburn Cooperative, the die has been cast. The organisation and its ethos has changed.

Appointing high profile directors and executive directors with [CVs that include community involvement](#) is only going to

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paper over the change.

What might work

Mutual organisations are not [misconduct and misstep free](#) . They are vulnerable to 'groupthink' in which managers back each other up in order to avoid disharmony.

But commercial organisations that prioritise profits create incentives for managers [to rationalise away breaking the law](#) in order to lift short-term profitability or boost share prices and bonuses.

If he were alive today Weber might suggest subjecting such organisations to increased and [more effective regulatory scrutiny](#) and [increased internal and external democratic accountability](#) would be a necessary first step to improve governance.

Weber might very well argue the Banking Royal Commission itself is helping the community forge a new ethos grounded in [community expectations about corporate conduct and purpose](#) , buttressed by strong laws to back them up that will guide individual conduct and organisational governance.

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