

Over Half a Million Careful Owners: A 75-year History of PSIS, 1928–2003. By Gordon Boyce. Wellington, N.Z.: Dunmore Publishing, 2005. 326 pp. Illustrations, photographs, tables, figures, appendix, notes, index. Paper, \$29.95NZ. ISBN: 0-476-0129-29.

Reviewed by David Merrett

This excellent book tells the story of the Public Service Investment Society (PSIS) over its seventy-five-year history. The PSIS operated on the margins of the financial system in a country, New Zealand, that is at the southern margin of the developed world. The story of this small savings-and-loan society run in accordance with cooperative principles may be of less interest to the readership of this journal than the way in which the interpretation has been constructed. Gordon Boyce has taken the history of PSIS beyond the parish pump by casting it in terms of universally important themes of strategy, structure, and corporate governance.

Boyce makes a compelling argument that businesses based on cooperative principles can satisfy the aspirations of their various stakeholders. However, the management of PSIS initially faced a number of challenges in attempting to do so. These included the tensions involved in increasing the number of members without diluting the homogeneity of the group; in keeping a balance between the democratic control exercised by the members and the need for strong management based on commercial principles; in maintaining a balance between paying out the surplus and building reserves; and in weighing the competing needs of the depositors, who were the older members, against those of the borrowers, who were the younger members. The rapid growth of PSIS after World War II brought each of these issues to the fore.

The origins of PSIS were to be found several decades earlier. Workers employed by the New Zealand government struggled during World War I and afterward to cope with the impact of high inflation on their money wages, which conservative governments were reluctant to raise in times of budgetary stress. Low-paid clerical workers were unable to get loans from the existing financial institutions. In an attempt to eke out family budgets, some fell into the clutches of loan sharks. In 1928 the Public Service Association (PSA), which was the union representing those working for the central

government, established the PSIS to fill this gap in the financial system. It would provide savings-and-loan products to its members for modest sums, offering higher rates of interest on deposits and lower rates on loans than the savings banks or building societies. Moreover, PSIS returned any surplus to its members in the form of an annual dividend. Initially the administration of PSIS was provided on a voluntary and part-time basis by its members. The people running PSIS dealt face-to-face with coworkers, persuading them to make regular contributions from their wage packets and applying personal knowledge of loan applicants' financial positions and character when making lending decisions.

The Society was hostage to shifts in the broader political and economic environment. The forty years from the mid-1930s until the oil shocks of the 1970s provided PSIS with rich opportunities for expansion. Its fortunes were boosted by the return to office of a big-spending Labour government in 1935 and by the growth of government control of the economy during World War II. A long period of expansion followed, during which time the New Zealand economy grew strongly, at least until the oil shocks of the 1970s. In this period, government spending continued to grow, giving rise to an in membership that eventually included significant numbers of government employees outside the PSA, a trend that challenged a core cooperative principle. New problems emerged. From the late 1950s, PSIS spread its wings, diversifying into other activities, including retailing, liquor wholesaling, travel services, and television rentals, all offered to members at preferential rates. These benefits encouraged more unionists to hand over part of their pay packets to PSIS, which was growing along twin tracks, both as a financial-services provider and as a player in a number of profitable retail trades. What monies it held back were invested in illiquid assets, such as apartments and commercial real estate.

What happened next will come as no surprise to readers of *Business History Review*. In 1979 PSIS was placed by Act of Parliament under statutory management, a form of chapter 11 bankruptcy, and its deposit funds were frozen. Changes in the external environment during the 1970s provide the backdrop. Oil shocks brought slower growth, inflation, and rising unemployment in their wake, and the competitive pressures intensified in the nonfinancial industries in which PSIS traded. However, the seeds of

weakness lay within the organization. Boyce is at his best in untangling the intersection between the deep-seated managerial deficiencies and the chain of events beginning in mid-1978 that brought the Society to its knees, including a struggle between the PSA and other kindred unions for control of the board. The central issue was that its directors, drawn from union ranks, did not possess the commercial acumen that was necessary to manage what had become a large and complex business. A failure to build reserves had left the financial-services business seriously undercapitalized. Poor internal accounting systems disguised losses and cross-subsidies, resulting from mispricing, within the nonfinancial businesses and between the financial and nonfinancial sides of the operation. Growing losses from the retail stores dragged PSIS toward bankruptcy.

The fall has been followed by redemption. The new manager, an experienced businessman appointed by the government, patiently rebuilt the organization. Nonessential businesses were eliminated, returning PSIS to its original status of financial-services provider. More important, managerial competencies were built as new appointments were made to key positions, supporting the refocused strategy. PSIS has become a commercially oriented business that remains true to its cooperative roots, in that it earns profits to provide services to its members. The organization has successfully positioned itself as a leader among the second-tier financial institutions in the increasingly competitive New Zealand market.

This book represents a long and detailed case in the best Chandler style, a story of expansion that ultimately failed because it was not supported by appropriate organizational design and management systems in the broadest sense. Government intervention revived the business, which is now once more in the hands of its original owners: members drawn from the union movement. However, its directors and managers are better prepared than their predecessors to deal with the challenges the organization will face in the future.

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