Expectativas ficcionales en organizaciones económicas. Un estudio de caso en la banca

Fictional expectations in economic organizations. A case study in the banking industry

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RESUMEN

Este trabajo analiza los procesos de toma de decisiones en instituciones financieras. Para ello se centra en el estudio del caso de una cooperativa de crédito enfrentada a un proceso de fusión. Siguiendo el enfoque teórico de las expectativas ficcionales (Beckert, 2013), el análisis ha tenido en cuenta tanto la información publicada como la observación participante de una de las asambleas en que se tenían que tomar decisiones. Los resultados sugieren que en situaciones de incertidumbre, en que no es posible conocer de antemano todas las opciones posibles ni estimar de forma precisa la probabilidad de alguna de ellas, las decisiones se toman en base a la medida en que permiten construir un relato que resulta coherente con los marcos de referencia. Por ello se plantea que para avanzar en el conocimiento de estos procesos es necesario profundizar en el estudio de las fuentes de credibilidad de los marcos de referencia.

Palabras clave: sociología económica, fusiones bancarias, expectativas, incertidumbre.

ABSTRACT

This paper analyzes the decision-making process in financial institutions through a case study of a cooperative bank in the Canary Islands facing a merger. Following the fictional expectations approach (Beckert, 2013), we studied the published information and a participant observation of one of the decision-making assemblies. The results suggest that in conditions of uncertainty, when it is not possible to foreknow all the options, or to precisely estimate their probability, decisions are made on the basis of their contribution to building a fiction which is consistent with the reference frameworks. In order to gain further knowledge of these processes it is suggested that the sources of credibility of the reference frameworks should be further analyzed.

Keywords: *economic sociology, bank mergers, expectations, uncertainty.*

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INTRODUCTION[1]

For over half a century the division of labor in the social sciences has presupposed that in certain domains humans behave as *homines economici*, rational calculators who orient their life according to the expected utility of the course of action they might follow. This area has been traditionally accepted as the domain of economics, whereas the domain of sociology has conventionally been assumed to be that of the different aspects of social life in which humans behave mostly according to irrational motives, such as emotions or traditions. This division has been challenged by recent developments in the social sciences.

Following the path initiated by Becker (1981), economics has expanded the metaphor of the *homo economicus* well beyond its traditional boundaries, into realms such as love and delinquency. Furthermore, New Economic Sociology has used the concepts and analytical tools of sociology to study phenomena traditionally studied by economists. The flourishing field of behavioral economics, based on experimental psychology, has tried to develop a new model of human behavior that overcomes the limitations of the unrealistic model implicit in economic theory. However, up until now sociological studies have focused on non-economic organizations and have paid little attention to the study of such intrinsically economic organizations as banks and credit unions. This paper presents an empirical study of a decision-making process in a cooperative bank, following the economic sociology approach of fictional expectations developed by Beckert (2013, 2014). According to this approach, the key issue in considering how to study a decision-making process is whether the situation can be characterized by certainty or uncertainty. Making a choice means evaluating possible present courses of action in the light of a future desired state, and therefore "*it is the images of the future that shape present decisions*" (Beckert, 2013:221).

1 The authors wish to thank Jose A. Cerrillo Vidal (UCO) for his comments on an early draft of this paper and also thank the referees for their insightful comments.

Situations of certainty are those in which all possible future states can be known in advance. For instance, actors engaged in sports games know that the game they are playing follows certain rules that will not change during the match, and they know the possible outcomes: they can win, lose, or draw. Assuming a fixed set of preferences, given factor endowments and restrictions, standard economic theory assumes that actors calculate the choice that maximizes their expected utility, scrutinizing all possibilities and consequences. Under the assumptions of classical economics, perfect information permits decision makers with good analytical tools to predict the future.

Though situations of certainty might apply in some situations, the vast majority of decisions in economic contexts can be characterized as situations of uncertainty, in which the future cannot be predicted and even the possible outcomes cannot always be foreseen. As Beckert puts it, "*the complexity of decision situations, unforeseeable interaction effects, and genuine novelty through unpredictable innovations and the choices of other actors, make it impossible to predict the future as already implied in the present"* (Beckert, 2003: 221). Going back to the sports game metaphor, economic actors play games in which the set of possible outcomes, the rules and the time limits can change during the match. The case analyzed herein, a bank merger in the context of a changing legislation, is a clear example of this.

In order to choose which course of action to follow, actors in the economy must form expectations with regard to a vast range of economic variables. For the purposes of this paper, expectations will be defined as "*present imaginaries of future situations that provide orientation in decision-making despite the uncertainty inherent in the situation*" (Beckert, 2013:222). Economic theory maintains that actors have *rational* expectations, that is to say, expectations based upon the calculation of the utility function of future states, which are presumed to be knowable. However, in situations of uncertainty all future states cannot be known, and therefore expectations are not rational but *fictional*. In the present, actors make decisions according to their depiction of how the future will be, and these depictions can only be fictions. Because of the openness of the future, when actors make depictions of how economic (future) processes will be, these cannot be compared to real, observable states and tested empirically. Epistemologically speaking, at the present time propositions such as "*only banks with over 500 branches will be profitable in ten years' time*" are neither true nor false. They are fictions, explanations about future events whose main characteristic is that they create a world of their own, a world that is based not on an empirically observable truth but on the authors' imaginings. This does not mean that there is no correspondence between reality and fiction. In fact, fictions could very well be true: they are interwoven with real elements and must take into account present empirical information "*to create a 'convincing' story of the future development of the phenomena at stake*" (Beckert, 2013:224).

The concept of *fictional expectations* in the economy highlights the fact that, both in fiction and in the social explanation of the evolution of economic events, stories should be convincing. Fictional expectations "*provide causal links that show how the gap between the present state of the world and the predicted future state is actually closed (…) providing plausible reasons why one should expect the depicted outcome*" (Beckert, 2013:226-27). Actors take decisions not in the light of how the future will be (the future cannot be known in advance) but in the light of which fictional explanation of how the future will be seems most feasible. Bank clerks voting for or against a merger often make decisions on the basis of whether the merger will bring about job losses, a hypothesis that only the future can prove right or wrong. A fictional expectation about the future is likely to influence action if it is considered to be credible. And credibility depends on several factors, including 1) the coherence of the story that the fictional expectation provides, 2) the power and position (cultural legitimacy) of those advocating a certain fictional expectation and 3) the extent to which a certain story fits into the broader cultural framework.

According to this theoretical framework, the paper will analyze an empirical case: the decision-making process by which a relatively small credit cooperative from the Canary Islands merged into a bigger financial institution. In order to do so, the media coverage and primary information of the process (one meeting and the documentation provided there) will be studied. The actors involved, the sources of credibility, and the processes of identity definition that took place as the decisions were being made will be analyzed. The results show that the balance of power among the different groups involved, the ability to align their own objectives with the prevalent ideological values and the capacity to influence public opinion are the key factors that help to explain the final outcome of the process. To develop all of this, the paper will proceed as follows. First, a brief contextualization of the decision-making mechanism in cooperative banks will be provided. The process to be analyzed will then be framed in the waves of mergers that changed the market structure of the Spanish financial system after the financial crisis of 2007. The media coverage of the process analyzed will be explained. Then, the paper will turn to the empirical analysis of the meeting studied. Finally, the limitations, results and implications will be discussed.

THE CASE STUDY: DECISION MAKING ON MERGERS IN THE COOPERATIVE BANK SECTOR

The research strategy followed in this paper to better understand the decision-making processes in financial institutions will be to carry out a case study of a relatively small cooperative bank in the Canary Islands. Cooperative banks are financial institutions organized on a cooperative basis. They provide the usual services of financial institutions (loans, mortgages, deposits, ATMs, etc.), following the principles of cooperatives. Therefore, though the current legislation (at least in Spain, where the case analyzed is located) permits cooperative banks to provide their services to the general public, their main objective is to meet the financial needs of their members. In cooperative banks there are no shareholders but only cooperative members. Whereas corporations are oriented towards increasing the value for the shareholder, cooperatives are oriented towards meeting the needs of their members. Not surprisingly, bank cooperatives have traditionally followed more conservative business strategies than private banks.

The origins of cooperative banks date back to the utopian socialists of the early 19th century and they are now present all over the world. In most European countries they are one of the three pillars of the banking system, together with private banks and savings banks. The importance of cooperative banks varies among European countries. According to data provided by Bülbül, Schmidt, & Schüwer (2013), cooperative banks represent around 40% of the financial system in France, 35% in Austria, 18% in Italy and around 10% in Spain.[2] The role traditionally played by savings banks in the financial system of each country also varies, depending upon historical reasons. In the Spanish case, until the mid-1990s the market share of each subsector was approximately as follows: 59% private banks, 31% savings banks and 10% cooperative banks (Castillo, 2013; Currás, 20013; Missé, 2013). Recent developments, which will be explained below in more detail, have led to the virtual disappearance of savings banks, since nearly all have been absorbed by private banks. However, the market share of the cooperative banks sector has remained almost the same.

Key decisions in financial institutions are made according to the applicable law. In private banks the most important decision-making mechanism is usually the shareholders' meeting (the annual general meeting). As the case analyzed is a cooperative bank, the body responsible for making decisions on key issues such as mergers is the *asamblea general ordinaria de delegados* (ordinary general assembly of delegates). All cooperative members are summoned to the *juntas preparatorias* (preparatory assemblies). At these meetings, held locally, relatively close to each branch of the cooperative bank, cooperative members vote for their representatives at the general assembly. These delegates, under the chairmanship of the *consejo rector* (executive board), make the important decisions: in the case analyzed herein, whether to merge with a bigger cooperative bank based in the Spanish region of Andalusia. The decision mechanism analyzed herein for a cooperative bank shows strong similarities to that of private banks: the body responsible for making important decisions is also an assembly (the shareholder's meeting). The differences lie mainly in the fact that in private banks, as in corporations, a small group of individuals might possess a sufficiently large share of corporate capital to determine the results of the voting. In cooperative banks both the legislation and the atomization of ownership strongly limit such situations.

The empirical analysis includes the analysis of the media coverage of the merger, a participant observation at one of the meetings and the institutional documents provided by the cooperative. The objective of the analysis of the media coverage was twofold: to analyze how the actors explain and present their motives for action, following one course of action or the other; and to connect the process to its broader social framework. The main advantage of observing the participants for analyzing phenomena of this type is that it provides types of information that would otherwise not be available. As far as we are aware, very little has been done in empirically analyzing how decision-making is actually carried out at banks' general meetings, because it is difficult to gain access to these meetings. Institutions are traditionally reluctant to allow researchers to analyze governance mechanisms, fearing that they might unveil differences between the explicit and implicit objectives of the policies adopted and the conflict between different stakeholders. In this case access was granted because one of the members of the research team, being a cooperative member, had the right to attend and vote at the Preparatory Assembly. In order to interfere as little as possible, the information was recorded manually and analyzed at a later time. Apart from this meeting, all the information analyzed is publicly available and the information gathered affects only the intimacies of how the bureaucratic procedures are actually implemented. Finally, the analysis of institutional documents provided information about the explicit objectives of the merger.

2 The figure varies depending upon the indicator used: deposits, loans, branches, etc.

THE CONTEXT: MERGERS IN THE BANKING SECTOR

The decision analyzed herein, whether a small bank cooperative in the Canary Islands should merge with one of the biggest cooperative banks of Spain, must be framed within the wave of mergers and the changes in legislation that occurred in the Spanish financial system as an aftermath of the global financial crisis of 2007-2010. The predominant view in the study of bank mergers is that mergers permit banks to improve their efficiency. Since mergers create bigger financial institutions, they are supposed to bring about economies of scale, scope and range, decrease operating costs, and eliminate duplications in the network of branches. They therefore produce financial services at a lower cost and are beneficial for the whole of society (Gutiérrez Fernández et al, 2013:251). The most influential studies in this field were published in the 1990s (see, for instance, Berger and Humphrey, 1992, 1997; Berger, Hunter and Timme, 1993; Shaffer, 1993; a comprehensive review can be found in De Young, Evanoff and Molyneaux, 2009).[3] This idea that bank mergers would improve bank efficiency and ultimately benefit the whole of society became so influential that policy makers promoted changes in the legislation that fostered bank mergers in the EU, the USA and other countries, in a clear example of the performativity of economics (on the concept of performativity see, for instance, Cochoy, Giraudeau, and McFall, 2010; Callon, 2010). Within the European Union, Directive 2006/48/EC established the agenda to achieve a common European Market for financial services. This directive was adapted to Spanish legislation in 2010, through *Real Decreto Ley* (Royal Decree) 6-2010, which transposed the European recommendation for Institutional Protection Schemes into the Spanish *Sistema Institucional de Protección* (SIP).

It is important to bear in mind that, between the enactment of the European Directive (2006) and its adaptation to Spanish law in 2010, the Spanish financial system had been seriously affected by the global financial crisis of 2007. Before the crisis the Spanish financial system was made up of three subsectors: private banks, savings banks and cooperative banks. The private bank sector had undergone several waves of mergers from the 1980s to the 1990s. As a result, by the mid-2000s it had an oligopolistic structure organized around a few banks. The most important among them (Banco de Santander Central Hispano [BSCH] and Banco Bilbao Vizcaya Argentaria [BBVA]) had developed strong internationalization strategies and were major players globally. The rest of the subsector of private banks was made up of smaller banks (e.g. Banco de Sabadell, Bankinter, Banco Popular) and the local subsidiaries of foreign banks (e.g. Barclays and Deutsche Bank).

The crisis of 2007 had an enormous impact on the savings bank sector, leading to its virtual disappearance. In the period between 1995 and 2010 the Spanish savings banks sector grew significantly, and their market share increased from the aforementioned 31% to 39.9% in 2010 (Castillo, 2013). During the years of economic boom the savings banks invested heavily in real estate and, because of their focus on the mortgage market, they were deeply affected by the bursting of the real estate bubble (Royo, 2013:637-38). By the end of 2009 their delinquency rate had risen sharply and the Bank of Spain pressed them to merge and consolidate. A huge process of concentration took place and the 45 savings banks that existed in Spain prior to the crisis were replaced by only five major credit institutions. Up until then the Spanish savings banks had been community banks whose

3 It is worth mentioning that the spread of these ideas is related to the key roles played by some of the main authors in this field of research. For instance, Allan N. Berger was an Economist at the Federal Reserve Board (Washington D.C.) from 1982 to 1989 and a Senior Economist from 1989 to 2008. It is also important to bear in mind that the actual conclusions of the studies were much less clear than the policy implications derived from them. For instance, in their key paper Berger and Humphrey stated that “deregulation of financial institutions can either improve or worsen efficiency. (…) A similar result applies to mergers and acquisitions: some consolidations improve cost efficiency, whereas others worsen the performance of the combined institution relative to the separate institutions. On average, there appears to be no significant cost improvement (Berger and Humphrey, 1997:204)”.

aim was to promote the socioeconomic development of their regions. However, as a result of the way the crisis has been managed, the five major credit institutions that resulted from the mergers of savings banks have lost that original character and become practically identical to private banks (Royo, 2013:641-645). To put things bluntly, this means that the Spanish financial system, formerly made up of three pillars (private banks, savings banks and cooperative banks), is now composed of only two: private banks and cooperative banks.

At the end of 2013 the cooperative banks subsector in Spain comprised around 68 cooperative banks (Missé, 2013), whose share of the total financial market could be estimated to be around 10%. The mergers in this subsector have been far more limited. The vast majority of Spanish cooperative banks were already engaged in some kind of cooperation. Furthermore, they were less affected by the crisis, since they had a limited exposure to the real estate sector and had not engaged in aggressive expansion strategies beyond their traditional territories and sectors of activity.

Before the financial crisis, the banking industry of the Canary Islands comprised branches of foreign banks, branches of Spanish banks and four financial institutions from the islands: two cooperative banks and two savings banks. Up until then the main financial institutions of the archipelago had been the two savings banks of each of the archipelago's provinces, Cajacanarias (Tenerife) and La Caja de Canarias (Las Palmas). Founded in the first half of the 20th century, they played a major role for almost half a century in each of the provinces, to which their activities where originally restricted. In the mid-1980s legislation permitted them to expand their activity to the rest of the islands, and by the 2000s each one was the most important credit institution in its province of origin and was also important in the rest of the archipelago.

The subsector of cooperative banks in the Canary Islands is made up of only two institutions: Caja Rural de Tenerife (currently Cajasiete), founded in 1962, and Caja Rural de Canarias, founded in 1978. They have traditionally played a minor role within the financial system, and in the year 2000 they held 4.61% of the bank deposits and 3.68% of the loans (Carnero Lorenzo and Nuez Yánez, 2002). Originally restricted to their home provinces, both institutions started to expand to the whole archipelago in the 1990s. By 2010, once the process of merger of savings banks into bigger private banks had been completed, these two cooperative banks were the only remaining financial institutions whose headquarters were located in the Canary Islands. This fact triggered social and political debate about the benefits of having a financial institution in the Canary Islands.

The recent evolution of the Spanish financial system, and the fact that it resulted in the bank analyzed being one of the only two financial institutions based on the Canary Islands, set up the reference framework in which the decision analyzed had to be taken. The combination of changes in the legislation (EU Directive 2006/48/EC, Spanish Royal Decree 6-2010), the effects of the global financial crisis, and the way the crisis was managed in Spain created a climate in which it seemed feasible that bigger financial institutions ("too big to fail" banks; on this concept, see for instance, Brewer and Jagtiani, 2013) were more likely to thrive. Furthermore, the fact that these cooperative banks had become the only Canarian financial institutions brought them to the center of the political arena and triggered changes that might not otherwise have occurred. Bearing all this in mind, we will now analyze the media coverage of the process using the concept of fictional expectations.

MERGERS IN COOPERATIVE BANKS: ANALYSIS OF THE MEDIA COVERAGE

The media coverage analyzed consisted of the news related to the process published in the local newspaper of the Canary Islands. The period analyzed was April 2011 to July 2013 (the merger occurred in late June). A simple categorical analysis was done, recording all information published on three issues: 1) the events (what was actually happening) 2) the stakeholders (workers, cooperative members, and the executive board and the parties and groups represented on it) and 3) the stakeholders' interpretations of the events. The saturation principle, a classical mode of sampling in qualitative research, was accomplished: after a certain number of news items analyzed they all reproduced the same discourse.

The first news regarding a possible merger of the cooperative bank was published in April 2011, echoing the meetings that the president of the Government of the Canary Islands had held with the executive boards of the two cooperative banks of the archipelago. The purpose of these meetings was to promote the merger of the two cooperative banks in order to create a strong financial institution on the islands after its savings banks had been completely absorbed by larger Spanish banks. Since banks play such a key role in the economy, being the main source of funding for enterprises in most European economies (Artús, 2013; Stearns and Mizruchi, 2005), it was considered a strategic policy to conserve financial institutions belonging to the Canary Islands.

At that moment, according to declarations by the representatives of the executive boards recorded by the press, Cajasiete (the cooperative bank based in the province of Tenerife) was more interested in a complete merger of the two institutions that would involve new boards and CEOs. In Caja Rural de Canarias (the cooperative bank analyzed) there was no consensus on which course of action to follow. According to the information published, fearing that its counterpart had been traditionally stronger and a merger could place them in a weaker position, the executive board of Caja Rural de Canarias proposed to merge through a SIP. Since that proposal was not welcomed by Cajasiete, the strategy of Caja Rural de Canarias shifted towards forming a SIP with other cooperative banks from mainland Spain. In August 2011 it was announced that the executive board of Caja Rural de Canarias had taken the decision to merge with Cajamar, the largest cooperative banking group in Spain. This news disappointed those within the cooperative, the government and the general public who wished to promote a stronger financial institution based on the Canary Islands, and the debate was reflected in the press. According to the press, supporters of the merger with Cajamar contended that it would allow the network of branches and all the jobs to be maintained, whilst a union with Cajasiete could lead to job losses and branch closures, since in many places the branches of the two bank cooperatives were too close.

The concept of fictional expectations helps us to understand these developments. Actors engaged in a possible merger between the two cooperative banks from the Canary Islands could not know the future in advance, but still they considered the different alternatives in the light of their feasible outcomes. Furthermore, as Fligstein (2001) points out, it is in the process of interpretation of the structures of the world that actors define their identity. In the institution analyzed, Caja Rural de Canarias, the decision of whether or not to merge with the other financial cooperative bank of the Canary Islands, and therefore build up a stronger Canarian financial institution, had to be adopted at a General Meeting to be held by December 2011. The merger started a process of differentiation of the ways in which actors defined their identity. For some of the cooperative members the key issue was that cooperative banks involved in the mergers were from the Canary Islands. For the workers, who according to the charters of cooperative banks are also cooperative members, the identity was defined mainly in terms of job promotion. The key issue seemed to be to maintain jobs, or even to provide workers with career expectations through the development of the network of branches. Finally, the interest of the standard cooperative members, which might be considered similar to that of a shareholder in a public company, was to maintain or increase the value of the shares and to provide suitable financial services, whatever that might mean. These actors were the least present in the public debate.

In December 2011, after the AGM the executive board of Caja Rural de Canarias took the decision to join Cajamar and this finally took place in January 2012. However, the result of the voting was quite even and the decision was adopted only because the vote of the president counted double. Because of these great differences, shortly after the voting four members of the executive board who had voted against the decision resigned. Internal fights that occurred during the following year (2012) forced the president, who had voted to join Cajamar, to resign from the presidency of the board in November 2012. An alliance of cooperative members and workers proposed full integration in Cajamar. Following procedures established in Spanish cooperative bank legislation, they passed a proposal to that effect at the assembly held on December 21, 2012. With 75% of the votes of delegates of the cooperative members, the general assembly decided to draw up a new proposal that would be discussed and voted at the general assembly to be held in June 2013.

As shown in the information published at that time in the press, three futures were then possible for the institution analyzed. First, it could be completely absorbed into Cajamar, the biggest Spanish cooperative bank. Members of the cooperative would become members of Cajamar. From that moment on, the key decisions affecting the branches and workers of Caja Rural de Canarias would be decided at Cajamar's general assembly (held in mainland Spain). This possible future did not appeal to those who defined their identity as a "member of a cooperative bank from the Canary Islands" (stressing locality). It did appeal, however, to those who considered it an advantage to be part of Spain's biggest cooperative bank (stressing size). Another possible future was for Caja Rural de Canarias to remain in its current situation, an alliance with Cajamar through an SIP, as decided in December 2012. In that case, cooperative members could decide to go back to total independence in ten years' time or proceed further with the merger. In terms of the possible outcomes of this possibility, it seemed as if this would merely postpone the final decision. Finally, a third possible future was to go back to the situation before December 2011. In that case, Caja Rural de Canarias would become a completely independent cooperative bank, as it had been, and as the other cooperative bank from the Canary Islands (Cajasiete) had remained. In terms of fictional expectations, this was a possibility that clearly appealed to those aiming for a strong, truly Canarian financial institution.

As stated above, a key issue for fictional expectations is their sources of credibility. Therefore, not surprisingly, critics expressed in the press the fear that going back to independence would not be welcomed by the regulator (the Bank of Spain). In terms of fictional expectations, this criticism can be translated more or less as follows: "*it is not that we do not like the depicted scenario but, quite simply, we have reliable information that make us believe that such a scenario is unlikely, if not impossible*". And it must be highlighted that the discussion is not about actual facts, but about *fictions*: events that will take place in the future and that therefore cannot be empirically tested at the moment. If the regulation does not change, and the regulator does not change, and the accounts of the bank do not change, then the regulator ***might*** not welcome the institution going back to total independence. It is in this climate that the meeting to be analyzed took place.

MERGERS IN COOPERATIVE BANKS: ANALYSIS OF DECISION-MAKING MECHANISMS

When the research started (2012), Caja Rural de Canarias had 24,958 cooperative members, with a capital of almost €32 million. It had over 112,000 customers and 319 employees in 67 branches, covering almost the whole of the Canary Islands (though the majority of them were on the island of Gran Canaria). Its financial assets amounted to €1.2 billion and its net income in 2012 was €1.2 million (information provided in the *Caja Rural de Canarias 2012 Annual Report*). As stated above, to better understand the decision-making process, an observant participation at one of the assemblies in which decisions were to be taken was carried out. The one analyzed was the preparatory meeting celebrated on the island of Tenerife in June 2013, in preparation for the assembly that was due to make a decision on the merger. The main purpose of this meeting was to elect the representatives of the cooperative members at the Ordinary General Meeting of Delegates, the body responsible for making the decision on the merger.

The meeting was held at one of the main hotels of Santa Cruz de Tenerife, the island's capital. Cooperative members could either attend physically or delegate their vote to someone else. The meeting was attended by 370 cooperative members, of which 125 were physically present and 225 were represented. Because of the meeting's importance, the executive board had previously sent a letter to all cooperative members, stating its position on the merger. Because it is of such an importance to the process to be analyzed, we will now discuss this letter in detail.

The letter, dated May 21, 2013, highlighted the importance of the issue to be discussed: the approval of a complete merger with Cajamar. First of all, it stressed the difference between the decision adopted a year before (June and December 2012), which allowed Caja Rural de Canarias to join Cajamar through an SIP, and the current decision to be made. What was at stake was the complete absorption of Caja Rural de Canarias by Cajamar. The letter then mentioned that this possibility was to be discussed not because the board was proposing it, but only because it had been proposed at the previous General Assembly of Delegates (December, 2012), according to the institutions' charter, by a group of cooperative members. However, to somehow discredit the legitimacy of the proposal, the letter pointed out that it had been made by a group of 200 cooperative members, in a cooperative of more than 20,000 in total. The letter then explained that, following the mandate of the General Assembly, the executive board of Caja Rural de Canarias had engaged in negotiations with the executive board of Cajamar about a possible merger. The letter explained that the executive board of Caja Rural de Canarias conceived the situation as one of economic decision making under conditions of certainty. It was important to clearly identify the starting point and carry out the merger only if the outcome would involve benefits for the cooperative members, that is to say, if the benefits would exceed the costs. The letter therefore presumed that the future could be known in advance.

According to the executive board, three conditions had to be met in order to consider the merger to be satisfactory. First, some of the members of the executive board should take part in the decision-making board of the resulting bank. Second, the financial condition of the institution should be considered in the merger. Since the financial situation of Caja Rural de Canarias was considered to be good, the merger should not be similar to a takeover, in which the acquiring party imposes its condition on the weaker party. Third, the labor conditions of the employees should be maintained or even improved. The executive board considered that, because none of these conditions had been met, the merger was of no interest to Caja Rural de Canarias. On the other hand, it was highly favorable to Cajamar because it would give it access to a new market, the Canary Islands, and add a solvent network of branches and human resources to its assets. It is interesting to note the way in which the executive board expressed its view on the feasible development of the sector in the immediate future: it stated that the current position of the cooperative seemed to be solid enough to face institutional and market requirements, whereas considerations of whether future developments in legislation might make a merger more suitable were merely speculation (a clear fictional expectation).

The meeting started by asking attendants to volunteer as members of the electoral board. Since the number of volunteers equaled that of the members required, no voting was actually made, and the electoral board was formed with the candidates who volunteered. A video was shown in which the CEO greeted the audience. Later on, the Annual Report for the previous year, already provided in a hard copy, was presented. The style and content of the meeting can be better understood as a liturgy: a ritual process in which the forms were as important as the contents (Meyer and Rowan, 1977, Fernández Rodríguez, 2007). As the keystone of modern economy, meetings of shareholders or cooperative members of financial institutions are supposed to be the domain of economic, means-ends rationality (Kalberg, 1980). Therefore, it is not surprising that the participants were bombarded with information whose legitimacy was based on its alleged rationality and scientific expertise. The presentation of the Annual Report was loaded with data from reputable sources: the International Monetary Fund forecasts for the evolution of the economy and the figures provided by the Spanish Statistical Institute about the trends of unemployment in the Canary Islands. While the Annual Report was presented, pictures of the Canary Islands were projected and popular classical music themes (such as Vivaldi's *Four Seasons*) were played.

The extent to which presentations influence voting at general meetings and other assemblies is an interesting one to research. Following the fictional expectations approach, it might be hypothesized that the main goal of presentations such as the one analyzed are not to convince but to demonstrate expertise and authority in a certain field, and even to help frame an intrinsically uncertain situation as a situation of certainty. The implicit reasoning would be *if we have the required expertise, we can foresee the future and adopt decisions that will foster our interests*. Finance is generally perceived as an obscure and opaque field of expertise in which decisions should be left to the experts and the opinion of laymen should not be considered. For instance, in the case analyzed it seems hard to tell how the International Monetary Fund's forecast for the world's economy might be relevant when deciding about the merger of a small cooperative bank in the Canary Islands with a low delinquency rate. Still, the fact that it might not be relevant does not really matter. Such statements should be interpreted as an attempt to shift the definition of the situation from one of substantive rationality (regionalist values supporting an independent bank) to one of formal rationality (a complex matter that should be in the hands of experts). Furthermore, these finding support the ideas of Beckert (2013:229) on the use of language in financial institutions: "*language and reasoning are not necessarily employed for the benefit of the institution for which one works; most importantly, they serve the purposes of the speaker within the institution. For these purposes, it is important that one uses formulations that are effective, without necessarily being right*".

After presenting the Annual Report, the meeting proceeded by proposing the profits for the following year. Information about the cooperative bank to merge with was then provided. The implications of the merger for the cooperative members were also discussed briefly. The fact that the cooperative would disappear as such, and that cooperative members would become members of the larger cooperative bank was stressed. Arguments given in favor of the merger included economies of scale, efficiency and other "sacred" terms; some of the key issues highlighted were that it would involve no job losses and no worsening of the working conditions, and that some of the central services for the new cooperative would be located in the Canary Islands. Once the presentations had finished, the voting took place. First of all, the electoral board asked for candidates to represent their fellow cooperative members in the delegates' assembly. Because of their number, cooperative members gathered at the assembly held in Tenerife were entitled to three delegates. Only three candidates volunteered, and since they got enough votes, according to the institution's charter the three of them were nominated delegates and sent to the General Assembly of Delegates. At that meeting, held on June 28, 2013 in Las Palmas de Gran Canaria (where the cooperative bank had it headquarters), those three delegates, together with almost 2,400 others, who were supposed to represent the will and interests of the almost 25,000 cooperative members, decided to approve the full absorption of Caja Rural de Canarias by Cajamar.

LIMITATIONS, RESULTS AND IMPLICATIONS

The aim of this paper was to use the fictional expectations approach to deepen the knowledge of decision-making mechanisms in financial institutions. In order to do so, a participant observation of a small decision-making meeting embedded in a larger process of bank mergers has been analyzed. The analysis of a single case of a relatively small financial institution (a cooperative bank) certainly does not allow great generalizations to be made. However, since very little has been done in empirically analyzing real decision-making mechanisms in financial institutions, we believe that it sheds valuable light on how decision-making processes actually occur. First of all, at the individual level the study provides real evidence of the basis on which actors make decisions in economic contexts. In the case analyzed, the decision to be made by the actors was who to vote for. Individual cooperative members attending a preparatory meeting had to decide and vote for those candidates whom they considered to best represent their interests. For the question analyzed (whether or not to engage in the merger), this meant that individual cooperative members had a clear perception of the option that best suited their interests. If the merger improved the labor conditions of employees, those cooperative members who were also employees should vote for those candidates who advocated the merger, for instance. On the other hand, if it were clear that the merger improved the economic performance of the cooperative, even though it might involve some job losses, cooperative members who were not employees should vote for it.

On what basis did the actors make their decisions? The fact was that none of the candidates clearly stated their position towards the merger. They were elected to "go and defend our interests", with no clear statement of what these interests were considered to be. For the case analyzed, it seems hard to establish the criteria used by each individual cooperative member. Some might have voted based on trust (they might have voted for their friend, or for the person they knew at their local branch). Others might have voted out of inertia or even tradition. But it certainly seems impossible to maintain, as mainstream economic approaches do, that the organization of corporations belongs to the domain of *homo economicus*, a world in which economic actors are well aware of their interests and choose courses of actions that maximize their utility function. The case analyzed herein illustrate that actors so supposedly "economic" as shareholders or cooperative members do not have a clear idea of how to best defend their interests: whether or not it is better to choose a merger, or who will best represent them. Therefore, they choose courses of actions based on criteria that still remain opaque (*Why should I vote for this delegate? What will he/she defend at the General Assembly?*). Because of the scarcity of the information gathered, the process might have been different at meetings other than the one analyzed. The final outcome of the process certainly had to do with negotiations about how each of the almost 2,400 delegates would vote, and about who would be a delegate and represent the interests of their fellow cooperative members. The study of the mechanisms by which decisions are taken in conditions similar to the one analyzed (cooperative member's meetings and shareholders' meetings) seems to be a promising field of research for economic sociology. At the micro-level, we believe that a modest contribution of this study is that, hard as it might be, empirically analyzing actual decision-making mechanisms seem to be a much more useful approach for gaining an understanding of these processes than the usual assumption of mainstream economics that economic actors make choices based on calculations, and from that starting point engage in complicated econometric analysis that might be completely out of touch with reality.

At the meso-level, the fictional expectations' approach seems to shed some light on the mergers and decision making in financial institutions. Mainstream approaches to mergers in different industries maintain that they occur either because one of the companies is almost bankrupt, and therefore needs money, or because they help to improve the efficiency of the institutions involved. Gutiérrez Fernández et al. (2013) suggest that the recent restructuring of the Spanish savings banks sector did not lead to a generalized improvement in its efficiency. For the cooperative banking sector, the study by Encinas Duval (2010) considered that the case analyzed did not suffer from a high delinquency rate and was not a weak candidate susceptible to mergers. So why do efficient banks engage in mergers? According to the idea of fictional expectations, actors choose the option whose fiction of how the future will be is most suited to their mind frame. And it is a fiction, because when the decisions are made no option can be proved right or wrong (only the future will show). There are several factors that help to understand processes such as the one analyzed. We will now analyze them, considering 1) differences between the explicit and implicit objectives of an organization, 2) the subjective meaning that actors give to the economic actions they perform, and 3) the balance of powers among different actors and groups, and how it usually connects with the unexpected consequences of purposive social actions.

To truly understand how decisions are made in organizations, it is important to analyze how each stakeholder defines the explicit and implicit objectives of the organization. In the case analyzed, the explicit objectives of the cooperative were to provide all members with good financial services and to contribute to the economic development of the region. Not surprisingly, all the corporate information and its presentation at the assembly analyzed stressed this idea: images of the Canary Islands were constantly projected at the assemblies, and all information given to the press was in line with this. After the meeting at which the decision to merge was taken, the official press release stated that the institution "*renewed its commitment to the development of the Canary Islands*". It was also said that it was going to open new branches in the province of Santa Cruz de Tenerife, and therefore not only to maintain but even to increase the number of employees.

For the employees, who also took part in the decision-making process, maintaining or creating new jobs was a way to achieve the goal of promoting the economic wellbeing of the region through good jobs. In late September 2013, when interviewed by the newspaper with the largest circulation in the province of Tenerife, the CEO of the new bank stressed the creation of new branches in that province as one of the main benefits of the merger. Furthermore, he stated that cooperative members had discarded the possibility of a merger with its counterpart in the Canary Islands because the resulting bank would still be too small for the expected configuration of the Spanish banking industry after the restructuring. For the same course of action, different justifications are given to different stakeholders. Employees are told that the choice will maximize their career possibilities. Cooperative members and the general public are told that the choice will maximize the possibility of having a strong financial institution that will grant loans and contribute to economic development. This has to do with the *sources of credibility* for fictional expectations (Beckert, 2013: 224). An intelligent actor tells slightly different stories to different stakeholders if the sources of credibility for them might vary. It is very interesting to contrast these ideas with the benefit of hindsight. As of March 2015 no new branches of the cooperative bank have been created. That does not mean that the statement that the merger would bring about the creation of new branches was false, but simply that it was just a fictional expectation: an idea of how the future might be that only the future can prove right or wrong.

As for the subjective meaning that the actors give to the economic actions they perform, the idea lying beneath the whole merger, as stems from the information analyzed, is that it was a way of ensuring the financial assets of cooperative members against uncertainty. When the merger took place, there was an atmosphere of fear in the financial circles of the Canary Islands. When La Caja de Canarias was absorbed by Bankia, small savers were persuaded to buy shares. In a very short time the shares lost value and many lost almost all their money. In that context, the spread of the idea that "too big to fail banks" (Brewer and Jagtiani, 2013) could get governmental subsidies in cases of crisis made small individual savers feel more comfortable with having their money in a bigger institution, so a merger became more attractive. The options at stake in situations of uncertain outcomes such as the one considered should be analyzed not as instruments that make it possible to anticipate the future but as "*tranquilizers against the paralyzing effect of having to act in unpredictable environments*" (Beckert, 2013:234)

This idea connects with a key issue to consider when analyzing socio-economic phenomena from an economic sociology perspective: the balance of power among different actors and groups (Dobbin, 2005; Portes, 2010). As has been mentioned above, the merger analyzed herein was triggered by political pressures and the will to have a strong financial institution in the Canary Islands. In a clear example of unanticipated consequences (Merton, 1936; Portes, 2010), however, the process ended up in a Canarian cooperative bank being absorbed by a larger group from mainland Spain. A first issue to consider about the balance of power is that none of the members of the executive boards of the two cooperative banks involved was willing to give up their power and merge into a larger corporation in which their future position was not clear. As prospect theory points out (Kahneman, 2011), those who feel that a certain process will jeopardize their interests will fight more against it than those who feel that it will foster their interests will fight for it. The actors involved were not only the cooperative members and the members of the board but also the employees, who were clearly against any possibility that could place their jobs in danger. Furthermore, not all actors have the same possibility to influence or gain knowledge about how the development in the legislation will proceed. In the case analyzed, changes in the legislation on the general banking industry and the savings and cooperative banks subsector established the framework for strategies in the field. Since most issues regarding economic organizations cannot be empirically tested, it is the coherence of the story that matters. Following this approach, banks merge not necessarily because it fosters their competitive position but because the merger provides a good fictional expectation. And "*fictional expectations provide justifications for (…) decisions whose success is uncertain* (Beckert, 2013: 228). In the case analyzed, Directive 2006/48/EC created the conditions under which becoming a bigger bank was a good fictional expectation. Also, it helped to obtain market power, as Brewer, and Jagtiani (2013) have analyzed. As Dobbin (2005) has pointed out for other sectors, it might often be the case that bigger firms are more profitable for shareholders not because they are more efficient, but because they get to shape the market in an oligopolistic way.

Considering the general theoretical context of business decision-making, this paper has shown that the dichotomy between markets and hierarchies (Williamson, 1981), which frames this issue according to economic theory, based on the assumption that decisions in financial institutions are made according to the rational expectations of *homines economici*, is inaccurate. By opening up the black box of organizations, the sociology of organizations has emphasized several aspects of the social systems involved in these decision-making processes. The political approach to decision-making in organizations focuses on how institutions and governance mechanisms combine the interests and preferences of stakeholders. The symbolic approach maintains that organizations are texts, and decisions are made through a narrative process in which forms are at least as important as the contents (Barry and Elmes, 1997). The approach of fictional expectations followed in this study combines elements of both approaches in order to provide a more sophisticated and realistic vision of what actually occurs when a group of social actors has to make crucial organizational decisions whose consequences are uncertain.

These findings, together with the growing corpus of knowledge developed within economic sociology and related disciplines, have important academic and practical implications. Academically, it seems necessary to further strengthen the collaboration between economics and sociology if a richer comprehension of the socio-economic world is to be attained, not because mainstream economics might be wrong, but because there are many shades of reality that are not covered by it. As Kahneman (2011:275) suggests, "*the errors of a theory are rarely found in what it asserts explicitly; they hide in what it ignores or tacitly assumes*". In this vein, efforts such us those of Knorr Cetina and Preda (2004) towards developing a sociology of financial markets are interesting not only to sociologists but also to anyone really trying to understand how financial markets really work. In contemporary societies financial institutions have become crucial in shaping society, because only ideas that obtain funds become real. Is it important to have local financial institutions that give credit to local ideas and entrepreneurs? How do global conventions such as the ideas of an efficient market in the financial sector and Directive 2006/48/EC affect the course of the economy and society? Though they go well beyond the scope of this paper, we believe that these are important issues that represent a promising field of research in economic sociology.

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