Diversity of cooperative bank governance models questioning by regulation:

An international qualitative research

Aude DEVILLE

Full Professor, Institute of business Administration, Nice University

aude.deville@unice.fr

Eric LAMARQUE

Full Professor, Sorbonne Graduate School of business

Paris 1 Panthéon-Sorbonne University, France

Chaire Groupe BPCE on Corporate Governance of Cooperative banks

eric.lamarque@univ-paris1.fr

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1. Introduction

Cooperative banks have shown a great resistance to the 2008 financial crisis and the various financial scandals. Often they seem to be cautious banks, opaque and little invested in high financial return activities. They appear as refuges in times of crisis. Yet the regulation seeks to standardize banking imposing major constraints on control banking activity (Dermine 2015, Goddard 2007, Hughes et al. 2003, Yutao, et al. 2015). The model of traditional commercial banks is retained as THE Bank Model. Indeed it allows an easier, more understandable and more standard evaluation. Yet numerous studies whose paper Tencati and Zsolnai (2009) points out that"…we underline that other, more inclusive and elarged, models of corporate governance are possible, and thanks to the contribution by the economist Robert Franck we point out the socially responsible firms can succeed in competitive environments just because of their true and genuine commitment to more sustainable and involving business practices".

How are financial cooperatives governed? This seemingly simple question is of great importance. Beyond their unique status and shared democratic principle of one member, one vote, cooperatives exhibit a diverse spectrum of complex corporate governance strategies. Decision-making is the result of dynamic interactions between organizational levels and managerial and policy structures.

For academics, media and regulatory authorities, cooperative banks belong in a league of their own. In the first part of the paper we discuss the main contributions on corporate governance models in financial cooperative sector but also on banks with specific commitment in ethic. Moreover Coop banks are often studied as a homogenous group and compared with traditional shareholder-owned banks. The supposedly superior performance of the cooperative model relies on many factors other than cooperative status and values. Regulators cannot ignore the specific legal framework and diverse governance models under which cooperatives operate when establishing new regulations. If the cooperative banking sector wishes to gain more clout in the face of often skeptical actors, it must be more transparent in explaining how it operates, particularly with respect to governance, an issue often raised by its detractors. By governance we consider the decision-making process within cooperative structures, both boards and supervisory bodies (governance structure), and management bodies (management structure).

All cooperative banks share a common characteristic that was mentioned repeatedly in the interviews conducted with actors from the sector: they are member-focused. Beyond this, the research has shown that a broad range of governance models exist at both the institutional and operational levels. This study aims to establish a framework for analyzing these models. The goal is to characterize them using a set of criteria in order to develop a typology and identify the different decision-making models.

Our objective is to identify certain characteristics of the organizations studied by:

- Identifying decision-making levels. Depending on an organization's size and structure, there may be up to three (local, regional, and national)
- Analyzing the decision-making process as relates to finance, risk, marketing, and HR

We then sought to identify the interactions between the various decision-making levels within policy and management structures, with an emphasis on the latter. For each level of decision-making authority, actions and objectives may vary from one cooperative to the next, and also periodically within a single organization.

The first aim of this study is to identify governance and decision-making models. External authorities, regulators in particular, have legitimate questions about the cooperative model, especially with regard to how these highly decentralized cooperative organizations are controlled. How do they manage risk? Who is accountable for decisions to regulators and members? Who sets strategic priorities? The cooperative banking sector must answer these questions and be more transparent about its methods of governance if it is to gain recognition for the practices that make it unique.

Through an exploratory study conducted during year 2014, we have three main objectives: (i) to build a common framework analysis to identify the critical dimensions of Coop Bank Corporate Governance, (ii) to test this framework through a qualitative research on several cases, and (iii) to identify a range of different governance models.

The next section (section 2) positions in the literature. Section 3 exposes our data collection. Section 4 discuss the diversity of cooperative banks. Section 5 and 6 highlight and identify different cooperative banks governance models and the different performance models. Section 7 concludes.

2. Positioning the paper: literature review

Finance, governance, and strategic management journals, as well as banking sector journals, have all explored the topic. The traditional approach consists of discussing governance models based on a bank's status (deposit, commercial, cooperative, etc.), nationality, or regulatory environment. However, few studies have explored the issue from an organizational perspective based on the distribution of decision-making authority within banks. This is the starting paper of this study. Papers also often adopt a comparative approach, assuming that each bank type is homogenous. This study doesn't presuppose that cooperative banks are homogenous, and instead examines their differences.

The literature review discusses articles at the intersection of three research themes: governance, cooperative models, and banking sector. Few studies analyze the governance of banks and the governance of cooperative banks from the perspective of the organizational and decision-making aspects of governance.

2.1. Governance of non-financial cooperatives

In general, organizational governance is characterized by the scope and nature of the oversight that a central body exercises over decentralized bodies, and by the degree to which decision-making is centralized/decentralized within each structure. Cooperative governance is characterized by a high level of central oversight over decentralized bodies and by a relatively high degree of autonomy afforded to those entities on a wide range of management decisions.

Chaddad and Cook (2004) examined new cooperative models in terms of property rights in the agricultural cooperative sector. The study identified a diverse range of governance models based on their approach to property rights. To this end, the authors utilized a broad definition of property rights, including residual claims and decision rights. The article proposes a framework for classifying organizational models that places traditional cooperative structures and investor-oriented businesses at opposite ends of a spectrum made up of five models with varying degrees of cooperative behavior (adapted from Chaddad and Cook, 2004).

- Model 1 - Proportional investment cooperatives: This shareholder model is based on a capital plan. Under this model, which is used in the U.S. by CoBank, equity is managed through share acquisition and redemption. A minimum capital contribution is calculated for each member. Some members will be over- or underinvested, in which case different options are available, including increasing equity investments for underinvested members, or allowing underinvested members to purchase shares from overinvested members.

- Model 2 - Member-investor cooperatives: Under this model, ownership rights are reserved exclusively for “member-patrons.” They are non-transferable and non-redeemable, but the cooperative distributes its net earnings proportionally based on proprietary interest.
- Model 3 - New generation cooperatives: Under this model, shares are transferable exclusively between “member-patrons.” The primary advantage of this model is that it encourages members to contribute to the cooperative’s venture capital.
- Model 4 - Cooperatives with capital-seeking entities: This model does not require capital to be provided and held exclusively by “member-patrons.” However, it is not an IOF (investor- oriented firm), as external capital is supplied by a separate corporate entity.
- Model 5 - Investor-share cooperatives- : Under this model, a cooperative’s capital can be held by non-members without making it an IOF. There are different owner classes. One share class is assigned to owners. There are also different investor types, as well as conventional cooperative investors (members).

Generally speaking, studies on cooperative governance seek to define existing models primarily by describing the role and function of boards of directors, boards of supervision executive management, and other such bodies. These studies have also described organizational processes, conditions of membership and financing, and the soundness of shareholder equity. Like Chaddad and Cook (2004), Bijman et al. (2013) develop also in the agricultural sector, three governance models. In the first, they distinguish the role of manager, director and supervisor, then in the second they associate the role of manager with the role of director, and finally in the third they associate the role of director with the role of supervisor.

For our study these conclusions confirm that the decision process inside cooperative groups is under the influence of the membership structure like in traditional companies (ownership in this case). This membership structure could be different between cooperatives and have an impact on the other entities of a group. The influence of the governance of the parent cooperative on local and regional entities is therefore a key dimension of our subject.

2.2. Evidence from the specific case of governance in banks

A number of studies have been conducted on the governance of conventional financial institutions, including board functioning, ownership structure, and the types of decisions made by boards. These works tend to focus on the relationships between governance structures and decisions by financial establishments on issues such as credit risk and market access. Some have also tried to establish connections between board structure and the impact of the financial crisis (Erkens et al. 2012).

If we narrow the focus to research on ethical banks, a study by San-Jose et al. (2011) highlights the differences between deposit banks, commercial banks, and cooperative banks versus "ethical" banks. Ethical banks are banks whose owners define their ideals, values, and objectives. The study examines 114 European banks (e.g., Merkur in Germany, LaNEF in France, Banca Popolare Etica in Italy, Triodos Bank in Spain, etc.). Results show that transparency of information and asset investment sets ethical banks apart from their peers. Their projects have strong social, cultural, ethical, and environmental dimensions. When it comes to transparency of information and asset investment, all European ethical banks obtain relatively high scores. The study concludes that the banking sector would be well advised to place greater emphasis on transparency and commitment with respect to bank assets. These two principles should not be the exclusive preserve of ethical banks. For the purposes of the paper, the authors use their own index to distinguish ethical banks from their peers; unfortunately there is no discussion on the distinction between the ethical values they examine and cooperative values.

Hillier et al. (2008) comment on the response of cooperative financial institutions to new regulations concerning capital investment. The obligation to invest capital to provide protection against risk was primarily targeted at conventional profit-maximizing financial institutions that issue dividends. The article focuses primarily on Australian banks. It shows that the regulations, which were intended to improve operating margins and reduce risk, actually increase capital adequacy and encourage accounting window dressing. It also emphasizes that "financial institutions" is not a homogenous category, and that regulations would be more suitable if the regulator took into account variations in internal governance and modes of operation and considered the impact of regulatory decisions on management incentives and behavior.

These two study show that the nature of the values supported by cooperatives and the regulation context are two keys dimensions. First regulation affects the nature of the relationships between the different levels of decisions in financial cooperatives. Second the values hold by coop banks are able to influence the nature of decisions taken at each level.

2.3. The specific situation of Cooperative banks

Di Salvo (2002) observed that "due to legislative, historical, cultural, and social diversity among European nations, there is an extremely broad range of national cooperative credit systems." He suggested breaking them down into four different models of integration: (i) Systems highly concentrated at the national level, such as Rabobank or Credito Agricola in Portugal; (ii) Systems highly concentrated at the regional level, such as France's three major cooperative banks; (iii) Decentralized but legally integrated systems such as Raiffeisen in Austria and Germany , (iv) Decentralized systems integrated on a voluntary basis, where local entities collaborate with a central entity without being legally obliged to do so.

This paper focus on centralization or decentralization of some decisions. The relationships used to evaluate the level of centralization and decentralization between the various entities primarily have to do with their shared supervision system as well as the financial relationships governing them, with an emphasis on cross-guarantee systems.

Questions about the accelerating centralization of decision-making under these financial and regulatory constraints first emerged just over a decade ago. This study pursues this line of inquiry by expanding it to other decisions so as to determine whether financial and regulatory developments lead to the centralization of other types of decision-making.

From the literature review, we consider that number of decision levels inside cooperative banking groups and the nature of decision are two key dimensions of our analytical framework. To confirm that, and to specify the conceptual framework, we conducted a qualitative study.

3. Data collection

Our case study is on cooperative banks. We conducted a secondary data collection (working papers, consulting studies) and primary data (including attending meetings and conducting recorded interviews).Thus the data collection is based on direct observation and interviews with cooperative bank leaders. The observations are made by attending to board meetings and by participating at 5 meetings organized by the EACB (European Association of Cooperative Banks). The guide for semi directive interviews is presented appendix 1. The interviews are conducted with assistance from EACB, which put us in touch with a number of its members. A total of 15 semi-directive interviews were held with subjects from 8 financial cooperatives. The 15 interviews are conducted in 8 different cooperative banks presented in Table 1 (7 European banks and one Canadian bank).

-Insert her table 1-

Table 1: Cooperatives represented through interviews and case studies
Federazione Italiana delle Banche di Credito Cooperativo
Rabobank Nederland
Bundesverband der Deutschen Volsbanken und Raiffeisenbanken-BVR
Confédération Nationale du Crédit Mutuel
Caixa Central de Credito Agricola Mùtuo-CRL
Caisse d'épargne (regional level)
Crédit Agricole (regional and national levels)
Desjardins Group (Federation and local branch levels)

The interviews are conduct with high responsibility decision makers (national or regional director, branch director, president). We also relied on observations from work inside the main French cooperative groups during the last three years. The information thus collected were analysis using the method of triangulation inside the case and between cases in order to identify patterns in the behavior observed. The convergence between subjects was satisfactory to ensure that our conclusions on the dimensions you have to consider analyzing the characteristics of models of governance were valid.

4. Diversity of cooperative bank governance model: discussion around two dimensions

We propose a analytical framework to analyze the diversity of the governance cooperative bank governance model. Qualitative analysis highlighted the relevance of two main dimensions announced in the literature. The first one is the number of decision-making level. It confirms the point of Di Salvo (2002). But, to go further, we have detailed more precisely what interviewees consider as most important at each level. The second dimension the influence and decision-making authority of each level. This is also suggested by existing literature but we also go further to find a comprehensive set of criteria which support this influence and this authority.

Dimension 1: the number of decision-making levels

A maximum of three levels were identified.

- **The national or central level:** This level can act as a central body (liquidity management, auditing, and control) and also oversee the cooperative's business and HR policies. In contrast, it may be a lightweight structure dedicated to managing liquidity and representing the group to public authorities.
- **The regional level:** This level can also take diverse forms, ranging from that of a full-service bank with complete decision-making authority and accountability to regulators to a lightweight structure responsible only for coordinating commercial and HR endeavors. In some cases, this level may be absent altogether if unsuited to how the territory is structured.
- **The local level:** This level also varies considerably, at times enjoying wide-ranging authority to make business and HR decisions and, in some cases, not existing at all.

Dimension 2: the influence and decision-making authority of each level

The analysis of the interviews and the initial questionnaires received allowed identifying at least three factors that help determine the degree of influence:

- **Decision type**. As mentioned at the start, the study objective is to examine management decisions in the broader sense, including in marketing, sales, HR, financial matters, and oversight. The first factor is therefore the type of decisions made. If a level can act only in one area, such as oversight and financial matters, its authority is limited. If, on the contrary, it makes all management decisions, its authority is significant.
- **Degree of real or apparent autonomy of regional and local entities vs. national structures for these decisions.** On a number of occasions during the interview process, respondents provided nuanced accounts of the realities of exercising their autonomy. In most cases where the central body has a large number of employees and performs a certain number of functions for regional entities, it also tends to exercise considerable influence. In other words, despite the real autonomy conferred by statute

on some local and regional entities, many “toe the line” established by the national structure. As a result, decision-making authority that looks significant—and which is often described as such by those involved—may in fact be quite limited. Local and regional entities that choose to truly exercise their decision-making autonomy may only do so if their results are solid enough to support them. This trend among cooperative groups toward centralization and alignment with national structures was visible in a number of countries.

- **Weight and influence of governance structures on management decisions**. The third phenomenon to potentially affect each of the levels is the capacity of policy governance to influence management decisions. This is the subject of recurring debate in the cooperative sector. Consensus holds that, beyond the oversight provided by governance and supervisory bodies to ensure members’ interests are upheld, their influence is relatively weak. However, our analysis did point to the growing impact of boards on a number of management decisions. This increased influence is clearly desirable to banking sector regulators, who expect governance structures to not only exercise oversight, but also provide real direction on major decisions and play an increasingly active role in risk policy. Figure 2 illustrates this phenomenon by depicting influence as being exerted not only in a single direction, from elected members to managers, but also from managers to elected members inside boards. To date, the gap in expertise between the two has led elected officers to defer to managers and avoid too much direct involvement in management decisions. However, observations also showed that when elected members in boards have extensive management experience, they exert a much higher level of influence over managers. We also noted that this factor may actually strengthen the decision-making autonomy of local and regional structures in relation to national structures. In this case, local and regional boards exert pressure on the national body regarding strategic decisions. If successful, their autonomy is reinforced.

We evaluated these three factors in terms of significant vs. limited authority.

Based on these two dimensions, we identified four series of interactions that contribute to decision-making in cooperative organizations: interactions between levels of management, interactions between governance and management structures, interactions between different levels of the governance structure, and interactions with members/customers. This has a significant impact on the amount of time required to make decisions, as time limits may be insufficient to secure complete buy-in at the local and regional levels. Figure 2 summarizes all the potential relationships between players in the decision making process. It also reflects complexity of cooperative structures.

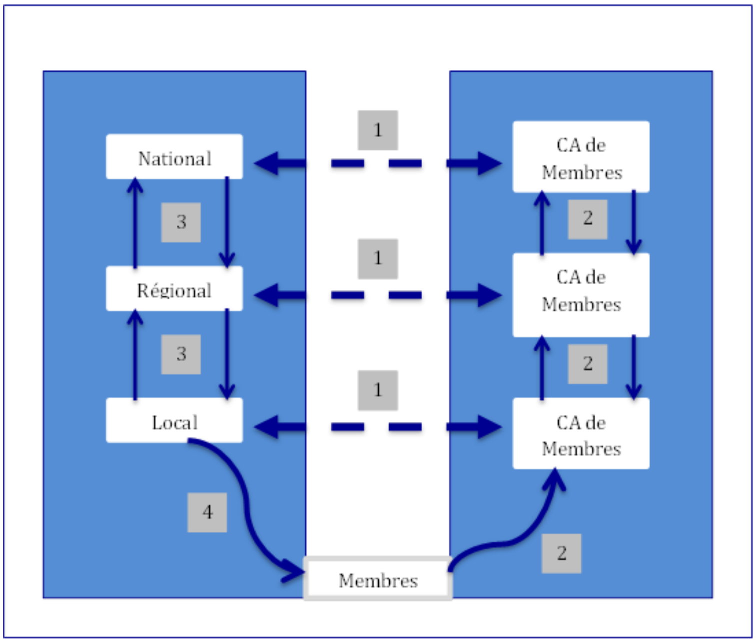

Figure 2: Decision-making relationships inside financial cooperative groups

Four types of interactions can contribute to the decision making process:

Interactions 1: Between the governance structure and the management structure. They express the interactions between elected members and managers at the time of decision making.

Interactions 2: Between the various governing bodies at different levels of the organization.

Interactions 3: Between the various operational levels present at different levels of the organization.

Interaction 4 : Between Staff members of cooperative banks and customers - members

Regarding these interactions we have estimated the influence of each level in the decision-making process. Table 3 summarize this point.

-Insert here Table 2-

Table 2: Distribution of decision-making authority between levels

	Limited influence	**Significant influence**
National level	- Only handles oversight of group entities	In addition to oversight and guaranteeing and managing

	- Organizes the group's solidarity system - Manages liquid assets on behalf of branches	liquidity, - Defines marketing policy and business objectives for all entities - Names executive managers of regional and local entities and determines the variable share of their compensation - Allocates financial resources to different entities and has full control over the investment policy
Regional or local structure	Cannot make any decisions without approval or outside of the framework established by the national entity	The structure: - Defines marketing policy and business objectives for all entities - Names executive managers of regional and local entities and determines the variable share of their compensation - Allocates financial resources to different entities and has full control over the investment policy

5. Identification of Governance models in financial cooperatives

For confidentiality reason we are not mentioned the name of the cooperative banks we have we have studied. We have used a decision tree (see appendix 2) where we have estimated the influence of each level. We present here three main examples of decision making to estimate this influence: (1) Implementation of control system, (ii) Implementation of a new approach to customer relations management, (iii) Recruitment of regional and local executive managers.

- ***Implementation of control system***

In reality, different types of oversight are performed. At least five were identified. The first is performed by regulatory authorities. The second is performed by the national structure (association, federation, central branch). The third is performed by elected members, either in formal fashion through the creation of a board of managers or supervision made up of elected officers, or simply through the action of a president elected by members at the local, regional, and central levels. The fourth is a form of self-monitoring between branches at the regional and local levels (they compare themselves and provide mutual support), as the failure of one damages the reputation of all, in keeping with the accountability principle). The fifth is imposed by society as a whole, which assesses and appraises cooperative banks for their ability to withstand recession, their responsible actions, and their community involvement.

Figure 3 incorporates the sources of oversight commonly mentioned in the interviews: regulation and the power exercised by the board and elected assemblies. Depending on the subject's position within the federation, central branch, or local branch, the constraints imposed by regulation and members vary. However, member oversight came up in every interview.

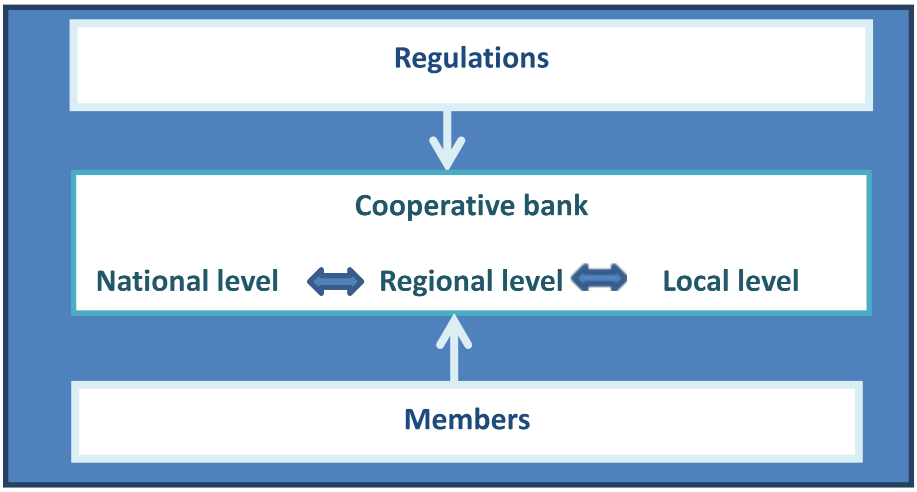

Figure 3: Cooperative bank control system

- ***Implementation of a new approach to customer relations management***

Collaboration between the central, local, and regional levels was observed in a number of cases. For example, customer relations issues are addressed by forming working groups made up of branch managers and national representatives tasked with supporting branch development. Representatives from national level facing the same issues also participate in these groups. The preferred approach is to develop an action plan together for presentation to a decision-making authority with representatives from all levels of the organization.

The advantage of this approach is that no single entity can impose its vision on the group as a whole. Proposals are structured to appeal to all branches, and the working groups avoid designating a single orientation for the cooperative group as a whole. Though national entities have an understandable preference for standardized practices, local and regional entities tend to argue that the unique qualities of their environments justify deviating from national proposals.

Many feel that these working groups spend a great deal of time trying to find acceptable solutions that appeal to all branches, while only a handful end up fully embracing the national framework proposed. That said, national authorities do understand the futility of trying to impose uniform practices on branches accustomed to a certain degree of autonomy. A great deal of diplomacy is necessary to standardize general practices. At this level, the challenges encountered by cooperative banks are not that different from those facing major multinationals serving a variety of markets, customers, and countries. They are also seeking a common set of business practices and guidelines for interacting with customers/members that allow them to develop a unique identity. For cooperatives, the values inherent to their cooperative status will obviously play a key role in informing these common practices.

- ***Recruitment of regional and local executive managers***

The procedure for recruiting regional and local executive managers is another example of the dialogue and interactions between group levels. The statutes of a number of groups allow local or regional entities to recruit executive managers (management or board members). They have the authority to hire on the recommendation of the chair for a general manager, or of the general manager for management staff. Officially, they enjoy full autonomy on this point.

However, the national entity manages a pool of managers from which chairs or general managers may select potential candidates. It can even implement a selection process to feed the pool. The final choice is therefore subject to certain restrictions. In the event that local management wants to hire someone outside the pool—even with backing from the board—the national entity must endorse the choice before the hire can take effect.

The situation is growing increasingly complicated today under pressure from European regulators, who have started to carefully examine the appointment process for executive managers before recognizing their "responsible" manager status.

These three examples show that the differences between levels aren't as clear as organizations proclaim, and illustrate the kind of interactions (interaction 3 from Figure 2) that can exist between them.

The final series of results from our analysis addresses the identification, within the sample of respondents, of the various possible cases illustrated in appendix 3. Table 4 provides a summary of the sample cases observed.

Even if we have only height cases, table 4 shows the diversity of governance models in spite of common set of characteristics shared by cooperative groups.

Table 4: Characteristics of observed cases

Authority	**National**	**Regional**	**Local**	**Examples**
Case 1	Significant	Limited	Limited	One case
Case 2	Significant	Limited	Significant	Not observed in the sample
Case 3	Significant	Significant	Limited	Three cases
Case 6	Limited	Limited	Significant	Two cases
Case 7	Limited	Significant	Limited	Two cases
Case 8	Limited	Significant	Significant	Not observed in the sample

For reasons explored earlier, it is difficult to pinpoint an entity's precise level of authority. To do so, in-depth knowledge of the groups is needed. Extremely detailed data must be collected to develop a scale for measurement of the influence in the decision-making process of each level. For now, in light of the data collected in the study interviews and initial questionnaires, the difference between significant and limited authority is crudely traced in Table 4. Indeed, no cases were observed where both the regional and local levels possess significant authority. However, the three-level typology remains helpful for explaining the overall decision-making process of cooperative structures.

If we consider that case 6 and 7 are very close from a decision-making point of view, we have identified three different models. Table 5 summarizes their main characteristics.

Table 5: Cooperative bank governance models

Centralized governance model **(Case 1)**	A central entity that strongly influences decision-making and is able to exert its authority across all levels over all key group functions (marketing, HR, finance, oversight). In this model, elected members and general assemblies and

	boards provide assistance in and backing for management decisions made at the regional and local levels.
Shared decision-making model (case 3)	In this model, decision-making authority appears to be relatively significant at both the national and regional levels. It's a harder model to pin down given that the distribution of decision-making between levels tends to vary from one period to the next. Decisions are often built in common. This model seems to have been more centralized prior to the recession. In recent years regional entities have increased their level of influence on group decisions. Elected assemblies are consulted at the regional and local levels but do not set objectives.
Decentralized governance model (Cases 6 and 7)	Local and regional entities have significant authority over all key functions. The central body's job is to monitor the performance of local entities, centralize financial data, support implementation of development strategies, and manage liquidity. This model can be broken down into two types, with decision-making authority being concentrated at either the local (large number of small entities) or regional (limited number of regional entities) level. Elected assemblies at the regional and local levels are consulted and may participate in making strategic decisions and defining objectives.

6. Performance models of governance models

Evaluating the performance of governance models is the logical next step in this study. It is also one of the most sensitive, as it requires a significant amount of data to firmly establish any potential links between models and performance. I have therefore limited the scope at this stage to identifying performance indicators employed by the institutions and pinpointing supplementary performance criteria directly associated with each model. To preserve the confidentiality of study respondents, groups targeted in comments about performance are not identified. Lastly, in keeping with my consideration of management decision-making categories, we have also included non-financial performance indicators like customer satisfaction, employee buy-in, and other indicators of a distinctly cooperative nature alongside traditional financial measures.

As with the previous subjects, I begin by surveying the literature on links between governance and performance in the banking sector and cooperatives in particular. Indicators used to measure performance are not only of a financial nature and favor profitability indicators such as ROE and ROA, as well as measures of market risk exposure, especially credit risk. Results that suggest a specific ownership type is superior are limited by the size of the study sample and especially by the difficulty of evaluating all performance-determining factors

We will then use the questionnaire results to propose a series of indicators for loosely tracking their performance (4.1). Lastly, I will describe the performance profiles observed among the establishments as relates to their governance structure (4.2).

6.1. Performance models for cooperative banking groups : a discussion

The cooperative banking groups studied tend to favor a broad definition of performance. I questioned them on the types of indicators they use to measure the various aspects of management efficiency. I also noticed that some indicators of cooperative performance are included. It therefore seems appropriate to first discuss what a performance profile actually is before defining the profiles according to models of governance. Table 6 lists the indicators associated with each major management function.

Financial performance ratios are fairly standardized and largely managed by local and regional entities. The cost-to-income ratio remains the most commonly used indicator for structural efficiency.

Table 6: Indicators used by sample respondents

Financial performance	- Exposure to credit risk - Cost/revenue ratio
Customer performance	- Complaint rate - Satisfaction - NPS (rate of recommendation) - Attrition/loyalty rates
HR performance	- Satisfaction - Mobilization - Turnover
Cooperative performance	- Cooperative engagement - Member participation rate at assemblies - Membership growth rate

Customer performance indicators have become increasingly sophisticated in recent years. Long content to use traditional customer satisfaction and loyalty measurement, both cooperative and conventional banks are starting to use the “net promoter score”.[1] This change is justified by the fact that certain observable behaviors, such as loyalty, do not necessarily translate into purchasing behaviors. On the contrary, some longstanding customers may actually act to discourage potential customers. Tracking complaint rates is another indicator of satisfaction, and can also shed light on the quality of the service offering.

HR performance is also subject to systematic measurement through employee satisfaction surveys to assess mobilization. The results can provide useful insights on employee engagement, their adherence to group values and priorities, and their perception of the meaning of their work.

Lastly, cooperative performance indicators are beginning to emerge. Some rely on precise figures, such as the rate of new membership growth, the percentage of customer-members, or the participation rate at local branch general meetings. Other groups are developing indicators for cooperative engagement using a multi-criteria analysis.

In addition to selecting criteria for measuring performance beyond financial indicators, my research led me to identify two complementary and entirely fundamental criteria that deeply influence the others:

- The time needed to make decisions
- The level of buy-in by local and regional entities: because they are in direct contact with members, they act as a conduit for management decisions to their customers

For the first criterion, we intuitively assume that cooperative banks need much more time than conventional banks. Cooperative groups are therefore at a competitive disadvantage, but could theoretically compensate by rapidly deploying their decisions due to strong buy-in by local and regional structures actively involved in the decision process. While the study is not conclusive, the multiple relationships between policy and management structures and the constant back-and-forth interaction between levels seem to point to a lengthened decision-making process, but without any guarantees of complete or even relatively widespread buy-in, except where centralized models are concerned.

[1] A measurement tool developed by the consulting firm Bain & Company.

The range of governance models within cooperative banking groups also suggests that there are marked differences when it comes to these last two criteria. We also found that the degree of decision buy-in can vary considerably within the same group. These observations led me to develop an as-of-yet theoretical model on the influence of governance structures on the performance of these groups (Figure 4).

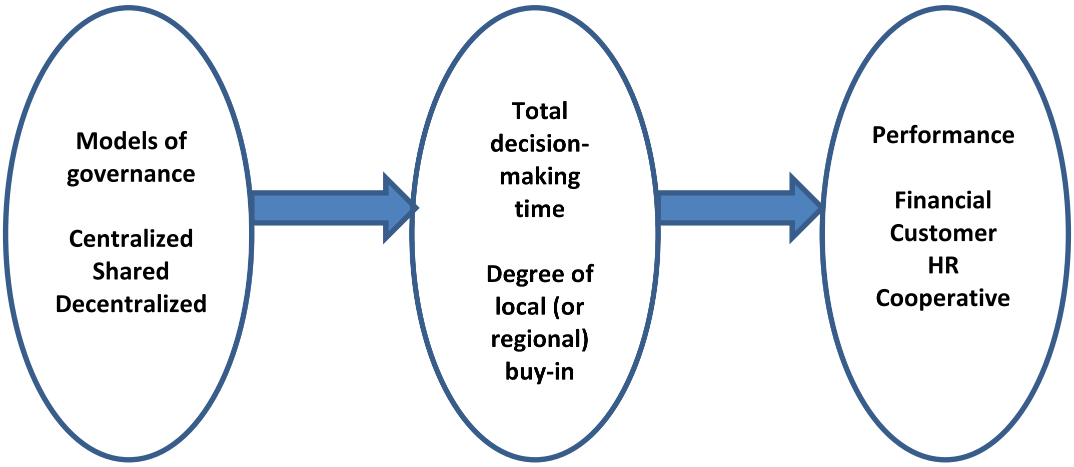

Figure 4: Impact of governance structures on performance

6.2. Performance models

Thanks to the data collected, we can analyze and identify different performance models according the different governance models. We design them by "performance models". There are not homogeneous. They present different forces and weaknesses on the various dimensions of performance (Financial and Risk, Human Resource Engagement, Customer Satisfaction, Societal Implication, etc...).

Respondents were asked how they perceived their institution's performance versus that of its main competitors. Most felt that their level of cooperative engagement was superior to that of their national competitors and that their level of credit risk was essentially identical. If we factor in the balance between operational performance, customer satisfaction, and HR mobilization, four basic profiles emerge:

- Some cooperative banking groups have levels of financial performance equivalent to that of traditional banks, which is indicative of good business performance and strong HR mobilization. Cooperative engagement, which acts as a lever for business performance and HR mobilization, should not weigh heavily on these results, or at least be easily supported by them. The cooperative difference is mostly apparent in the distribution of profits, a large part of which are held in reserve. This performance model is summarized in Table 6. It corresponds to one case from the sample.

Tableau 6: Balanced performance model

Performance type	Chosen indicator	Bank performance/competitor average		
		Above	Average	Below
Operational performance	Cost/revenue ratio			
Risk exposure	Exposure to credit risk			
Customer satisfaction	NPS rate (rate of recommendation)			
HR performance	Employee buy-in			
Cooperative performance	Cooperative engagement indicator			

- Some cooperative bank groups are willing to renounce a certain level of financial performance (and income) to affirm their cooperative engagement and ensure member satisfaction. Support for the community, local development, and community initiatives may lead them to offer financing at rates that do not fully reflect inherent risk. This results in less pressure on member-customers. As a result, operational performance is equal to or lower than that of the competition, but levels of customer satisfaction are among the highest. Table 7 illustrates this model, which clearly reflects one of the sample cases.

Table 7: Customer-oriented performance model

Performance type	Chosen indicator	Bank A performance/competitor average		
		Above	Average	Below
Operational	Cost/revenue ratio			

performance				
Risk exposure	Exposure to credit risk			
Customer satisfaction	NPS rate (rate of recommendation)			
HR performance	Employee buy-in			
Cooperative performance	Cooperative engagement indicator			

- The third observed performance model is clearly oriented toward operational efficiency. In at least one case, operational performance levels were much higher than that of the competition, but fairly low rates of customer satisfaction were also observed. Considerable effort is deployed to keep overhead and HR spending to a minimum. The resulting level of member-customer services is perceived as insufficient and rates of referral are quite low. Table 8 illustrates this example.

Table 8: Finance-oriented performance profile

Performance model	**Chosen indicator**	**Bank A performance/competitor average**		
		Above	**Average**	**Below**
Operational performance	Cost/revenue ratio			
Risk exposure	Exposure to credit risk			
Customer satisfaction	NPS rate (rate of recommendation)			
HR performance	Employee buy-in			
Cooperative performance	Cooperative engagement indicator			

- The last model is unbalanced. In spite of average to below-average operational performance, levels of customer satisfaction remain low too. At least four cases in the sample reflect this situation.

Having observed only nine cooperatives in any depth, it is difficult to develop conclusions any further. Indeed, this study was never intended to precisely evaluate the effects of governance models on performance criteria. While it is possible to formulate hypotheses as to the possible relationships between the two, much more precise data than that possessed by the groups themselves would be necessary to properly validate the conclusions. The value of these preliminary conclusions lies instead in the idea of the performance profile we have presented, and which reflects cooperative banks' current ambitions. It also serves as a tool for differentiating between cooperative and traditional banks.

None of the cases studied here showed evidence of unusually high risk-taking in terms of credit, superior HR mobilization, or systematically superior rates of customer satisfaction. As a result, the potential for differentiation may be harder to exploit than anticipated.

7. Conclusion

The analysis shows that decision-making influence is not always clearly divided between levels and that final decisions are often the result of negotiations and compromises that increase the amount of time needed to make them. This phenomenon was observed in HR and marketing decisions; when it comes to oversight and financial matters, the division between the levels is much clearer. On the issue of governance, the results confirm the diversity and complexity of the governance of financial cooperatives. Behind a single status and shared democratic principle, one man, one vote, the facts show a real diversity and real complexity. The decisions are the result of multiple interactions between different organizational levels and between the management structure and the political structure. These first results allow us to offer an analytical framework of governance models, characterize three different models of governance in financial cooperatives and identify specific performance indicators for these structures. Our research presents two main contributions. Firstly, though several years the financial cooperative sector is studied, we never encounter a framework able to describe and explain the complexity of the decision process involving different level of governance. Our proposal, used in other case studies, could constitute a new analytical framework able to make some comparisons and build a typology of this sector. The development of an interpretive framework of governance of a cooperative is useful to better understand the interactions between structure and the reason for a longer decision process. Secondly, inside the different models the emergence of we have called a Shared governance model is new. In this model, decision-making power is quite equally distributed between the national and regional (or local) levels. Practices under this model are harder to nail down because the division of decision-making between levels can vary over time. The decisions taken in this case are the result of interaction between people at different level on both side (management structure / governance structure) but also the result of interactions between management and governance structure.

In this article, we ask the question of the effects of the legislation on the diversity of banking governance models. A consequence discussed in this paper concerns also the implication on performance models which tend to become homogenized. Future research perspective is then the question of the customers: will they have better or less good advice? Is it a good thing to impose legislation that seeks first to facilitate the evaluation of banks financial statements ?

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Appendix 1: Guide for semi directive interviews

Topic 1: Organization

(1) Can you describe the organization of your bank.

(2) What are the different levels of decision-making identified?

Topic 2: Decision-making

(1) What are the functions of these different entities, decision-making levels?

(2) What is the extent of their responsibility?

(3) What is the type of decisions / actions they undertake?

(4) How do you rate their degree of autonomy?

(5) To which entity your structure make a reporting ?

Topic 3: management tools and performance indicators

(1) What tools have been developed in your bank? How do you name?

(2) What are they?

(3) What performance indicators are measured? How often?

(4) What are the decisions taken in the analysis of these performance indicators?

(5) Have you developed non-financial performance indicators? Why? How are they used? What is their impact?

(6) Are performance indicators subject to evolution?

(7) In your opinion what is a good indicator of performance?

Topic 4: Incentive systems

(1) What are the incentive systems set up in your bank? Can you describe them.

(2) At what time are they implemented?

(3) Are there formally? They are known and accepted by your employees?

(4) In your opinion what is a good incentive system?

(5) In your opinion, is there consistency between the decisions taken by the various decision-making levels in your bank?

Topic 5: Recruitment procedures, training, appointment

(1) Can you describe the different methods of recruitment?

(2) In your opinion what is the typical profile for a branch manager, a manager at the regional level, a bank manager?

(3) What are the modes of training and development of internal career?

Topic 6: The importance of elected officials, their power of decision, their roles in the structure

(1) How important is elected compared to bank employees, particularly in relation to the bank manager?

(2) What is the extent of their power of decision?

(3) What actions / decisions types by elected officials?

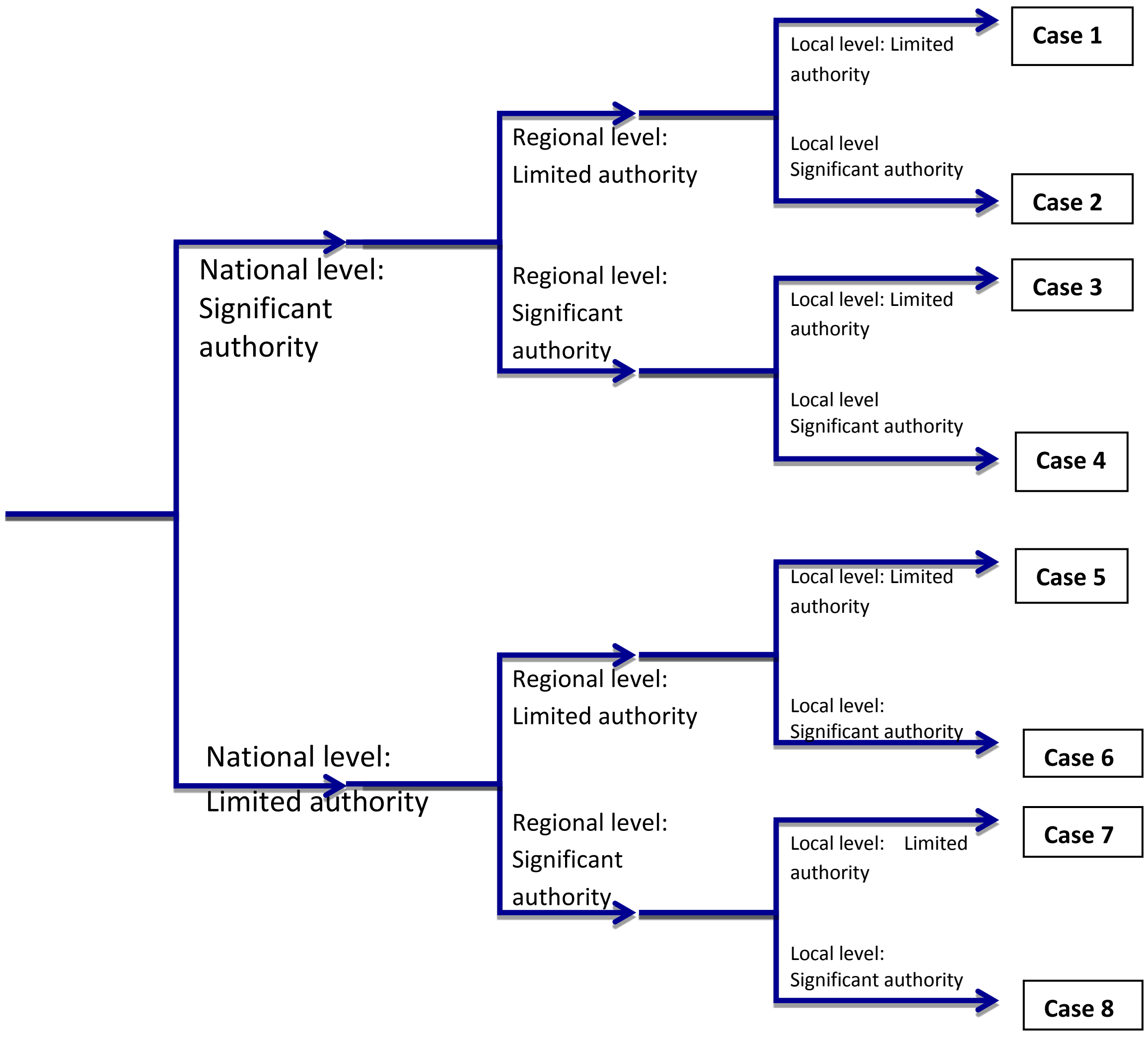
Topic 7: Issues members

(1) How important to your members?

(2) What is the consequence of your view of the special status of customer / member in the cooperative banks?

(3) Are they subject to specific performance indicators (type claim rate, level of satisfaction / dissatisfaction etc ....)

Appendix 2: Decision tree to determine cases coming from the combination of authority at different levels



Cases 4 and 5 are only theoretical as each of the three levels would have either limited (case 5) or significant (case 4) authority. Case 5 would lead to a dead end and instances of no decisions being made. Case 4 would results in blockages, with the various levels likely neutralizing each other. Both of these theoretical cases would lead to structural rigidity. Neither was observed in our sample or the existing studies.