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Features, Facts and Figures of European Cooperative Banking Groups over Recent Business Cycles¹

ABSTRACT

This paper complements the existing scarce literature on financial cooperatives in various ways. First, we describe the background and evolution of European Cooperative Banking Groups (ECBGs). Second, we summarize the main reasons for the past disregard and recent revaluation of the cooperative banking model. Third, we empirically investigate to what extent the financial performance of ECBGs over recent business cycles is related to the original cooperative characteristics. To this end, we have constructed a new database with a broad range of financial variables for fifteen ECBGs in ten countries and collected similar indicators for entire banking systems of the countries in question. Our empirical findings suggest that many previous assertions and qualitative statements about ECBGs really hold in practice and not just in periods of financial distress. Furthermore, ECBGs do exhibit a different performance compared to all other banks throughout different stages in recent business cycles. Their corporate governance with members' influence and specific decision making mechanisms seems to lead to a relatively low risk appetite and high capitalization, a high degree of stability and a predominant focus on retail banking. It must be emphasized that these conclusions cannot be extrapolated into the future. Indeed, an abundance of historical examples of successes and failures among all types of banks exists.

KEY-WORDS

EUROPEAN BANKING; SHAREHOLDER BANKS; COOPERATIVE BANKS; PERFORMANCE;
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1. Introduction

The European banking sector is not homogeneous. Basically, one can distinguish between state banks, shareholder-value banks, e.g. mainly listed banks, and stakeholder-value banks. The latter category comprises savings banks, credit unions, mutuals and cooperative banks. There are indications that these stakeholder-value banks weathered the subsequent storms relatively well so far, without large scale state support (EACB, 2010; Birchall, 2013). At the same time, these types of banks did not receive much academic and policy attention before the financial crisis hit. Hence the question arose as to why these banks apparently have avoided great financial distress.

This article tackles this question for the largest category within the family of stakeholdervalue banks: European cooperative banking groups (henceforth ECBGs). Cooperative banks are controlled by members who have voting rights. Acknowledging the heterogeneity of ECBGs (Ayadi *et al.*, 2010), the possible connection between the common features and the relative performance of fifteen ECBGs in ten European countries over the latest business cycles is explored. More specifically, the article investigates whether longstanding assertions about the corporate governance and organizational features are reflected in differences between performance indicators of ECBGs and all other banks in the time span 1997-2011 or 2002-2011, depending on data availability. The text will be larded with concrete examples of individual ECBGs.

In this respect, this paper complements existing scarce academic studies and policy reports on financial cooperatives in various ways. In particular, it analyzes the central issue in a concise historical perspective and in the context of organizational characteristics of ECBGs. Second, fifteen ECBGs are simultaneously examined over a similar and relatively long time span, which enables us to draw robust conclusions about the entire cooperative banking sector. Most recent articles are case studies of – specific aspects of – individual ECBGs in different times of financial distress and/or over relatively short time spans (e.g. Stefancic and Kathiziotis, 2011; Mooij and Boonstra, 2012; Bley, 2012; Goglio and Alexopoulos, 2012), which results in a diffuse picture and does not allow for general conclusions. Third, we shall empirically validate qualitative postulations about ECBGs from previous publications (e.g. EACB, 2007). Fourth, we do not only investigate the relative performance of ECBGs in (recent) times of crisis, but our sample period also incorporates times of economic prosperity.

The paper is structured as follows. Section 2 sketches the roots, organizational structure and evolution of ECBGs. We briefly describe how they eventually emerged from small local credit cooperatives more than a century ago. This clarification provides useful starting points for understanding their recent performance. The reasons for the past disregard and recent appraisal of the cooperative banking model are discussed in sections 3 to 5. Section 6 formulates testable hypotheses, which are derived from the preceding sections. In section 7, we highlight our newly constructed and more comprehensive database, which covers a broad range of indicators for fifteen ECBGs in ten European countries and contains similar measures for the entire banking systems of the countries in question. The sample period runs from 1997-2011 or 2002-2011, encompassing more than one business cycle. Section 8 contains the empirical results and section 9 summarizes the main findings.

2. The transformation of local credit cooperatives into ECBGs

The history and evolution of many ECBGs is extensively documented². In short, most cooperative banks were established more than a century ago in response to the problems that small urban and rural businesses had in accessing affordable financial services (Guinnane, 2001). These banks were able to serve these “excluded” groups because members provided funding or stood bail and were therefore involved in the decision-making process. Local cooperatives did not aim at maximizing short term profits, but profits were necessary for further growth and were for the larger part retained and added to the capital base. Beginning in Germany, the cooperative banking concept gradually dispersed to other European countries.

Not all cooperative banks managed to survive the ravages of time. Quite a few cooperatively organised banks were unable to adapt to technological, social or competitive changes and consequently disappeared or now just live a marginal existence³. Many countries never had a cooperative banking sector of any significance, because the cooperative ideas did not find fertile soil due to policy impediments or absence of a supportive regulatory framework, among other things. In other countries, cooperative banks chose to be acquired by other banks or have converted into investor-owned banks⁴.

Over time, the cooperative banking model of the “survivors” evolved and differentiated into a multiplicity of European institutions with characteristics reflecting the needs of cooperative members on the one hand and the specificities of national legislative frameworks on the other (Alexopoulos and Goglio, 2009). The majority of local cooperatives developed into national (network) organizations and became active in other fields of financial services such as insurance or leasing. The increasingly high level of domestic integration was partly prompted by regulatory requirements or the necessary realisation of economies of scale and higher efficiency levels from a competitive point of view. Subsequently, quite a few national organizations transformed into internationally active banking groups. Some ECBGs have sold a part of their business activities to investors or became partly listed, thus gradually transforming into a hybrid type of financial cooperative⁵. Hence, the organizational structures are definitely not static, but are constantly evolving.

Figure 1 presents total assets of the ECBGs included in this study from the smallest to the largest. The ratio of the largest (French Crédit Agricole Group) to the smallest (Portuguese Credito Agricola Group) is 144, which shows the great disparity in sizes. ECBGs also vary in terms of their attitudes to membership. Some banks strive to make every customer a member, while others are not actively recruiting members (Oliver Wyman, 2008). Other striking differences include the extent of centralization and integration within the networks (Desrochers and Fischer, 2005)⁶, the size and focus of international activities, and the design of the cooperative governance with member authority (see Ayadi *et al.*, Chapter 3, 2010). In most cases, governance reform and pressures of competition have fostered an accentuated centralisation of

² See for instance Bosseno (1994); Aschhoff and Hennigsen (1995); Brazda (2001); Werner (2005); Albert (2008) and Mooij (2009).

³ In Sweden, the *Föreningsbanken Sverige* was more or less forced by the government to convert in 1993 from a cooperative ownership structure to a stock corporation (Körnert, 2012).

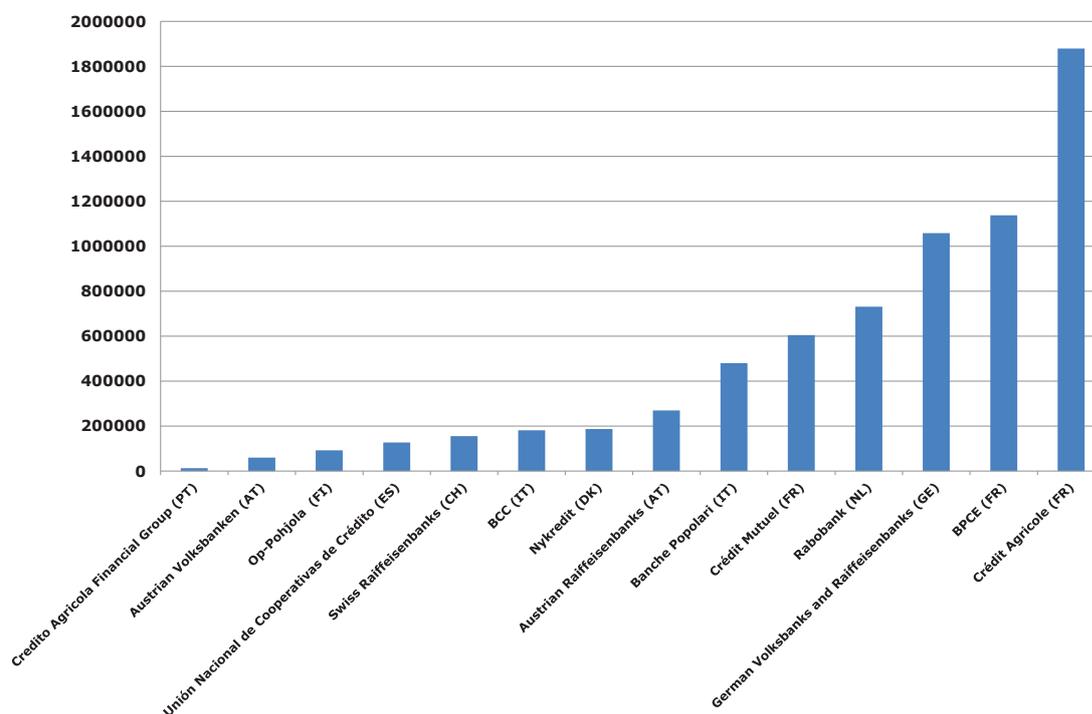
⁴ A striking example is the wave of demutualization of mutual building societies in the United Kingdom in the 1990s (Llewellyn, 2012). Since then, these societies adopted riskier business models, faced severe losses in the latest financial crises, went bankrupt or were close to failure.

⁵ As an example, the French Crédit Agricole S.A, listed since 2006 on the Euronext Paris, was created to represent all of the Group’s business lines and components. As of December 2011, 56.2% of Crédit Agricole S.A was owned by the regional banks that make up the Federation of Crédit Agricole, and 38.7% was owned by institutional and individual investors.

⁶ The Dutch Rabobank Group is one of the most centralised systems, whereas the Italian cooperative banking sector is the most decentralised system.

strategic and operating functions and processes. This has led to the establishment of so-called higher-tier networks, which still vary from loose associations to cohesive groups (Di Salvo, 2003)⁷. In a few cases, the central institution has an important supervisory role over its local bank members⁸. A general feature of ECBGs is the existence of some form of internal solvency and liquidity safety nets, except for the Italian *Banche Popolari*. These structures form the core of internal mutual support schemes in ECBGs. Due to all these factors, many outside observers find that cooperatives have relatively complex governance structures given their fragmentation of ownership, decision rights (“one member one vote” principle), mutual guarantees and multi-level boards (Oliver Wyman, 2012).

Figure 1. Asset size of ECBGs (in EUR millions)



Source: data are provided by ECBGs and pertain to 2011

3. The era of underexposed and fading cooperative banking features

For a long time, the features and values of the cooperative banking model did not attract a lot of attention in articles, the press, reports and scholarly research for various reasons (Kalmi, 2007). Firstly, the original “mission” of cooperative banks seems to have been largely completed and the original *raison d’être*

⁷ For instance, the French Crédit Agricole Group has a three-tier network, comprising local, regional and central organizations. The Dutch Rabobank has a two-tier network, consisting of local member banks and the central organization. Some Italian *Banche Popolari* are connected very loosely with the *Istituto Centrale delle Banche Popolari*, but the majority of *Banche Popolari* acts completely independently of each other.

⁸ This is the case for the Austrian *Volksbanken*, the Finnish OP-Pohjola Group and the Dutch *Rabobank* Group. In these countries, the supervisors have delegated to the respective APEX organizations formal supervisory powers over its member banks. These central institutions themselves are supervised by the national supervisors.

of cooperative banks have become less valid; almost everyone in Western Europe has access to financial services today. Moreover, the comparative disadvantages that non-cooperative banks faced in the past for servicing small farmers and small businesses have also largely disappeared. Legal frameworks now offer much stronger contract enforceability and verifiable information about potential borrowers is generally available. In other words, the traditional differentiators of the initial local cooperatives have become less pronounced and less understood over time.

Another reason is that the transformation of local cooperatives into (inter)national network organizations (ECBGs) has resulted in varying degrees of hybridisation with the “capitalist” corporate model. Besides, the proclaimed multiple goals of ECBGs are generally more difficult to understand than the theoretically more easily interpretable goal of profit maximizing of most listed banks. As pointed out by Ayadi *et al.* (2010), cooperative banks can be categorized as “dual-bottom line” institutions. They claim to fulfill other equally important objectives than mere shareholder value creation. This suggests that financial performance and economic efficiency are neither the only nor the ultimate standard of assessment for ECBGs. These aspects are indisputably important, but they are not sufficient to assess the contributions of cooperative banks to society and the economy.

Moreover, the dominance of the free market thinking and the associated Anglo-Saxon model aimed at profit and shareholder value maximization did not encourage great interest in ECBGs. In this shareholder value era, some subsidiaries of ECBGs actually got partly listed⁹ or adopted practices from banks with other organizational forms. Other ECBGs extensively debated whether or not to change from a cooperative organization into a listed financial company¹⁰, because this was sometimes considered to be an appropriate way to attract external capital for faster growth (Deloitte, 2012). Hence, ECBGs themselves were also partly responsible for confusion and contempt of their cooperative business model. Besides, some ECBGs do not report reliable empirical data or longer and consistent time series for key cooperative and financial indicators, partly because they do not have the same extensive reporting requirements as listed banks. This aspect obviously hampers an objective evaluation of their business model and impedes empirical and scholarly research.

All these developments were not favorable for retaining a clearly visible cooperative identity and the collaboration with or adoption of elements of non-cooperative enterprises have been sometimes viewed as a capitulation to capitalism. In fact, ECBGs were sometimes forced into a defensive position prior to the crisis as their cooperative business model was considered to be rather misty, outdated or even detrimental for the entire banking sector (Kodres and Narain, 2010). Cooperative institutions were not considered the most efficient, vibrant, or innovative institutions for a long time. PA Consulting Group (2003) even accused cooperative banks of “spoiling” the market conditions for other banks. Others (e.g. Oliver Wyman, 2008) underscored the sluggishness and opacity of decision making processes or exaggerated the principal-agent problem inside ECBGs based on merely theoretical considerations (Groeneveld and Llewellyn, 2012)¹¹.

⁹ A subsidiary of the Austrian *Raiffeisenbanken*, *Raiffeisen Zentral Bank*, is listed.

¹⁰ The Dutch *Rabobank* pursued the Great Cooperative Debate in the years 1995 through 1997.

¹¹ This refers to potential conflicts of interest between managers and owners of a bank. Agency issues arise in any organization in which there is a separation of decision and risk-taking functions. In the case of Cooperative banks, these issues emerge between the management and the members. In the case of shareholder value companies, these issues occur between the management and shareholders.

4. Assertions about ECBGs

The European Association of Cooperative Banks (EACB) and the International Cooperative Banking Association (ICBA) made efforts to emphasize the special nature of cooperative banks in various reports well before and during the crisis. One of the messages is that the customer has always been and still is at the core of their operations and, at a local level, members still “have a say” in the local member bank’s policy (EACB, 2007). It is also suggested that cooperative banks have an “impact presence” on society and the entire banking market. Here, some qualitative publications refer to their contribution to economic growth, employment and the creation of more favourable interest rate conditions for customers.

Another claim is that the orientation of the domestic cooperative banking part inside ECBGs has remained relatively unaltered (EACB, 2005). The first-level cooperative banks are still predominantly targeted towards retail banking and servicing the real economy, i.e. private individuals and SME’s, because effective member influence would force them into this direction. This would also translate into a lasting engagement with local regions and the real economy, which would be visible in relatively dense branch networks, i.e. physical proximity to customers and members. It is also stated that proximity is further reinforced through the participation in numerous social networks and by actively supporting the local communities. Suppose that local banks really have strong local ties and networks, they would theoretically be better equipped to assess the creditworthiness and risks of customers at a local level. If that is true, this differentiator would be reflected in relatively stable, and possibly higher, lending to households and corporate customers in favourable and unfavourable times.

Retail banking is mainly about relationship banking which goes hand in hand with a long term orientation (Boot, 2000). This would imply that especially local cooperative banks within ECBGs do not aim at short term benefits of their operations, services and products for members and customers and themselves, but champion a “dual bottom line” approach. They do seek profit, but also strive for economic and social welfare in local communities. Consequently, their returns on equity or assets are expected to be lower but more stable. Their risk profile should be also comparatively moderate.

Despite all the changes in the financial structures and composition of the balance sheets, it is also stated that ECBGs still add a considerable part of their net profits to their capital and reserves, which would lead to a solid capitalization. For ECBGs in our sample with a credit rating at the group level, this would be visible in relatively high ratings¹². These comparatively high ratings would also stem from existing legally-binding cross guarantees to connect different entities of the group as a risk management tool. Rating agencies tend to view this type of arrangement as less risky since the entire organization is viewed as a single consolidated risk unit.

Until the breakout of the credit crisis, many position papers and background documents had a predominantly qualitative, or even ideological, character and lacked “empirical” proof. It is undeniable, however, that cooperative banks stand out regarding their history, structure, organizational form and original business objectives from other banks. But these aspects were often ill understood and misinterpreted as elaborated in Section 3. The main observable differentiator of ECBGs is their specific corporate governance with some degree of member control. Member influence surely cannot rule out policy mistakes, but can basically bridge the distance between executives and policy makers and many different stakeholders. Theoretically, this intrinsic feature is “only” a precondition for ECBGs to be able to operate or position themselves differently in the market.

¹² Seven ECBGs in our sample obtain a credit rating for the entire group, i.e. on a consolidated basis.

5. The appraisal of cooperative banking features

The subsequent crises have positively changed the opinions and views about cooperative banks over the last five years. Preliminary evidence indicated that the cooperative organizational form in general had performed significantly better than other organizational forms after the global financial crisis of 2007/8 and the following recession (Birchall and Hammond Ketilson, 2009). Policy makers, regulators and academics started to wonder whether these achievements could indeed be related to asserted specificities of the cooperative banking model. Furthermore, the interest in cooperative banks was boosted by the United Nations which declared 2012 as the International Year of Cooperatives (UN, 2011). In addition, international consultancy firms (Deloitte, 2012; McKinsey, 2012; Oliver Wyman, 2012) and *The Economist* (2010) started to pay attention to the merits and characteristics of the cooperative banking model.

The financial crisis disputed the alleged shortcomings of the cooperative banking model and the perceived superiority of the shareholder value banking model. For a long time, comparisons of the pros and cons of corporate governance structures between cooperative banks and investor-owned banks were sometimes misleading as they were based on incorrect starting points. The issue is that it is not always clear on what basis the comparison was being made: (i) the ideal investor-owned bank, (ii) the ideal cooperative bank, (iii) the actual investor-owned bank, and (iv) the actual cooperative bank. In other words, it is necessary to distinguish between how institutions behave in some abstract, theoretical or ideal state, and the way they operate in practice. The ideal investor-owned bank has clear-cut principles defining objectives, accountability and control. Therefore, the corporate governance of these banks was often deemed to be more straightforward than that of cooperative banks where many theoretical flaws of any corporate governance were thought to apply in practice (Kalmi, 2007; Fonteyne, 2007).

However, recent experience unambiguously points to ill-functioning aspects of corporate governance mechanisms in investor-owned banks: the investor-owned model has shortcomings in practice as well. At the same time, the theoretical shortcomings of corporate governance arrangements in cooperative banks were magnified and exaggerated for a long time (Groeneveld and Llewellyn, 2012). Be that as it may, one can equally well assert that the management of quite some investor-owned banks has visibly failed to operate in the interests of their shareholders by following strategies to maximize shareholder value, which caused huge losses and write downs and necessitated large-scale government intervention in the last few years¹³. In conclusion, it is tendentious to compare the actual behavior of a cooperative bank model with some mythical ideal form of investor-owned model. It must be acknowledged that in practice both forms operate imperfectly and no safe conclusions can be drawn regarding the superiority of one form over the other.

Another viewpoint regarding cooperative banking has also changed recently. It is increasingly realized that cooperative banking is not synonym to some kind of “philanthropic” banking which mainly exists to achieve social objectives (Bonin, 2012). Cooperative banks need to have adequate and innovative products and services at fair prices and state of the art distribution concepts in the first place. If not, they cannot survive and operate on banking markets and will not be chosen by customers.

¹³ Northern Rock, Fortis, UBS and Royal Bank of Scotland are clear examples of this.

6. Hypotheses

The takeaway of recent articles and reports is that ECBGs still have internal characteristics and a business orientation which can be traced back to the key features of the former credit cooperatives. In short, member ownership is believed to contribute to continuity and a cautious course of the entire ECBGs via specific internal governance mechanisms. Here it should be noted that in some ECBGs local or regional local banks still constitute by far the greatest part of the group, whereas other ECBGs undertake sizeable activities outside their “traditional” cooperative core. Having said this, the asserted specificities should show up in a divergent performance of ECBGs compared to other banks. We shall test which of the proclaimed differentiators and assertions discussed in the previous sections are valid and visible throughout recent business cycles. Concretely, we have inferred five main interrelated hypotheses:

- a. Hypothesis 1: ECBGs have a strong customer focus and client proximity. The alleged engagement with local communities and the real economy as well as member influence should imply relatively dense branch networks. If ECBGs really put the customer interests first, are not risk seekers or profit maximizers, this should also be visible in recent data, especially in times of crisis. Indeed, many customers lost confidence in their financial institutions and financial advisors and were not satisfied with their behavior and performance in recent years. Moreover, the absence of explicit profit targets due to the proclaimed focus on customers’ interests, member influence and the emphasis on retail banking is expected to show up in lower average returns on assets (and equity) than investor-owned banks.
- b. Hypothesis 2: ECBGs aim at austerity and efficiency in operations. Austerity and efficiency in business operations were important characteristics of local credit cooperatives, which were set up with members’ money. Since member ownership still exists, frugality and efficiency should ideally be virtues of present ECBGs as well. Among other things, this implies that the absence of a profit objective, or a lower profit requirement, may not lead to inefficient operations. The stated focus on customer value cannot be an excuse for more relaxed cost control and inefficient operations. We shall test this hypothesis by comparing cost-income indicators of ECBGs with those of other banks.
- c. Hypothesis 3: ECBGs are relatively stable institutions with focus on retail banking. Because of member ownership, ECBGs are believed to be mainly focused on retail, commercial and SME banking. Consequently, they would have a limited appetite for non-core add-ons and a bias towards serving and financing “real economy” activities. This would be accompanied by a long-term view of relationships with local businesses and municipalities and an innate focus on customers. This area of banking is associated with relatively stable income streams across business cycles and a moderate risk profile. Hence, ECBGs are assumed to be fairly stable organizations with moderate returns on assets/equity and a relatively large retail banking business.
- d. Hypothesis 4: ECBGs have a strong capitalization and low risk profile. A natural conservatism should be created by distributed, independent governance with member influence and ownership and relatively limited access to third party capital. This could mean that ECBGs steered away from riskier activities and practices, for example operating at relatively high levels of tier 1 capital (Laeven and Levine, 2009). The higher capitalization should in turn result in lower returns on equity compared to banks with another business orientation.
- e. Hypothesis 5: ECBGs have an impact presence. It is stated that ECBGs have an impact presence on the macro and local level, the banking market structure and banking conditions for customers. First, from an economic perspective, it has been argued that they create jobs, contribute to economic growth by granting loans and credits and aim at a sustainable development of local communities (EACB,

2005). Second, they are assumed to stimulate stability, diversity and competition in banking (Ayadi *et al.*, 2010). Third, the presence of ECBGs is believed to lead to better conditions for customers, e.g. higher interest rates on savings and lower interest rates on loans.

7. Sample description

The main objective of this article is to test these hypotheses by investigating the performance of fifteen ECBGs *vis-à-vis* entire banking sectors in eleven countries over the last turbulent decade¹⁴. Because of their specific nature, different reporting requirements and heterogeneity, it is inappropriate to use databases like Bankscope to collect data on cooperative banks. These databases contain inconsistencies and many caveats regarding cooperative banks. For some cooperative banks, consolidated data for the entire banking group are reported, whereas in other cases unconsolidated data for – small – individual local cooperative banks are given. If these differences are ignored, one easily arrives at misleading conclusions. Actually, data on individual local cooperative banks cannot be compared with those of other types of banks, which often pertain to consolidated group figures. Besides, individual cooperative banks usually obtain all kinds of support from a central institution (APEX), e.g. products, IT systems and HR services, to reach economies of scale inside the entire cooperative banking group.

For our empirical investigation, we combine several data sources. We use consolidated data for ECBGs which are composed by these groups themselves¹⁵. If possible and appropriate, we have corrected the figures for major breaks in the time series caused by sizeable mergers and/or acquisitions to be able to make sensible comparisons between ECBGs and entire banking sectors. In countries with more than one cooperative banking group, we have constructed aggregated indicators by using total assets of individual cooperative groups as weights.

Data on entire banking sectors in the countries under review are collected from national central banks or supervisory agencies as well as from the IMF and European Central Bank. The period of analysis is determined by the availability of good quality data and spans either 1997-2011 or 2002-11. Both periods encompass years of strong economic growth and financial stability as well as years of economic slack and financial instability. This feature offers the opportunity to test whether the asserted specificities of ECBGs really lead to different performances compared to those of entire banking systems both in economically and financially prosperous and in difficult times.

¹⁴ We have restricted our empirical analysis to European cooperative banking groups for two main reasons. The first one is that reliable data on cooperative banks in other parts of the world are hardly available. Second, cooperative banks in other parts of the world operate in totally different economic, regulatory and social circumstances and differ regarding their development phase and maturity. So, the overall analysis would be obscured by situations that differ considerably across continents.

¹⁵ In some cases, the consolidated figures were constructed upon request by the author. The data for the Italian *Banche Popolari* are an example.

8. Empirical analysis of ECBGs

8.1. Members

As stated before, ECBGs frequently publicly assert that they do not aim at maximising profits but customer value (EACB, 2005). Ideally, one would like to verify this assertion with direct insights and opinions from customers, i.e. “hard data” or empirical evidence. Basically, it comes down to the perception of customers whether ECBGs banks “walk their talk”. Or in other words, keep their promises and treat their customers fairly. Unfortunately, information about the perception and appreciation of customers of this proclaimed customer focus and the maximization of customer value is not available for many banks, including ECBGs. A more accurate indicator would be the level of “customer advocacy”: the perception by customers that their financial institution does what is right for their clients, not just what is right for the bottom line. Trust and confidence are the key words in this respect. Some recent surveys and reports seem to suggest that cooperative banks have suffered less than other financial institutions from a loss of trust in recent years, but the empirical evidence remains flimsy (Michie, 2010; Ensor, 2012; Oliver Wyman, 2012).

Table 1. Branches and members in individual countries

Countries	Branches (1997 = 100)				Member to population ratio			# Members (1997 = 100)
	ECBGs		TBS ¹		1997	2004	2011	
	2004	2011	2004	2011				2011
Austria	73	73	129	135	29.8	28.2	28.7	102
Denmark	98	119	70	56	10.4	7.7	5.3	53
Finland	91	72	120	117	12.6	21.1	24.7	205
France	125	141	84	67	25.2	29.4	34.0	147
Germany	76	70	70	56	17.3	18.8	20.8	120
Italy	139	178	113	111	3.0	3.0	4.0	140
The Netherlands	71	48	50	38	3.4	8.9	11.1	355
Portugal	121	135	112	135	2.6	2.9	3.8	148
Spain	132	141	104	102	2.8	3.9	5.3	220
Switzerland	92	83	78	78	10.0	16.9	22.1	246
Total average	104	112	89	80	12.9	14.8	16.9	140

Source: ECBGs and ECB

Note: Data of French and total ECBG branch offices are adjusted for major breaks caused by the acquisition of *Crédit Lyonnais* by *Crédit Agricole* in 2006 and the merger of *Banque Populaire* and *Caisse d'Epargne* in 2009

¹ Number of branches of all other banks, i.e. excluding branches of local cooperative banks

Hence, we confine ourselves to indirect proxies for customer satisfaction and advocacy. We look at member to population ratios and market shares which contain some implicit information about the attractiveness and popularity of the domestic cooperative banking part of ECBGs. Table 1 shows the development of the number of members and member-population ratio of the included ECBGs in their domestic markets. Strikingly, the number of members has increased every individual year, i.e. also in the era of underexposed cooperative banking features (see Section 3). Total number of members rose from around 37 million in 1997 to approximately 52 million in 2011, which equals a growth of about 40 per cent. On average, the member base grew at an annual growth rate of almost 2.5 per cent since 1997. In relative terms, the average member to population ratio showed an upward trend; the ratio rose from 12.9 in 1997 to 16.9 in 2011. Every ECBG attracted more members, with the notable exception of Denmark. The divergences in the level of this ratio can be explained by differences in the market position of individual ECBGs as well as variations in the attitude towards membership policy. The Dutch *Rabobank* witnessed by

far the largest inflow of members (plus 250 per cent)¹⁶, followed by considerable expansions in Switzerland, Spain and Finland.

Implicitly, the absolute and relative rises in members point to an increasing popularity of the cooperative banking model in the home countries of ECBGs. The underlying reasons for the absolute and relative surge in members are hard to isolate and will probably be of a financial and immaterial nature¹⁷. It merely indicates that ECBGs have succeeded in attracting new members with their products, advisory services, client approach, business models or other features. The increase also signals customers confidence in ECBGs and corroborates tentative results of some fragmented surveys (Ensor, 2012; Oliver Wyman, 2012). Indeed, clients are presumably not very eager to become a member of local cooperative banks if the level of trust and satisfaction is low.

8.2. Domestic loan and deposit market shares

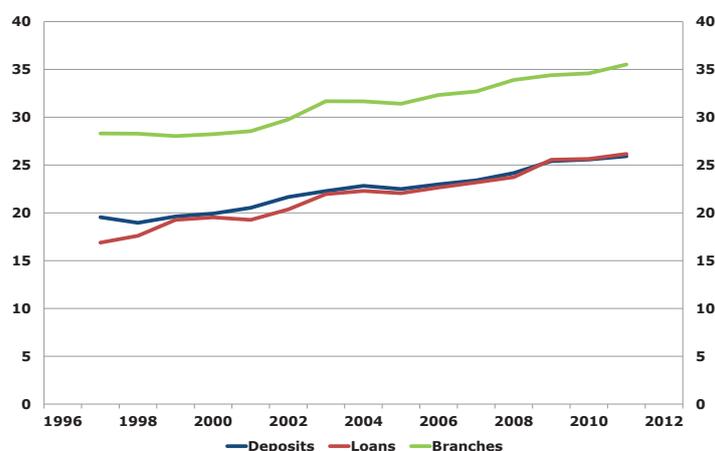
The increase in the number of members has translated into rising market shares in national retail banking markets. Since 1997, ECBGs succeeded to increase their domestic market shares in mortgages and consumer loans as well as in private savings steadily and continuously throughout economic cycles. On average, both retail market shares rose by about 10 percentage points to 26 per cent in 2011. In the turbulent years 2007-11, ECBGs also strengthened their domestic market positions, but the increase did not differ significantly from that in the other sub-periods. These rises imply shifts of many billions of euros in loans and deposits towards ECBGs. The annual increases were mostly caused by endogenous growth, though in some years acquisitions of or mergers with non-cooperative players were also partly responsible for the rise in overall market shares¹⁸. The underlying data show that on balance no individual ECBG lost domestic market share over this period. Two thirds of all ECBGs increased their market shares, whereas the market position of other ECBGs remained stable. Like the substantial increase in the number of members, rising market shares are just signs that customers felt relatively more attracted to ECBGs for a myriad of different reasons.

¹⁶ This can be attributed to a very active membership policy after the finalization of the Great Cooperative Debate in 1998 (see Mooij, 2009).

¹⁷ Reasons to become a member are manifold (EACB, 2007). It all starts with trust and confidence in the bank. When these elements are present, marketing and brand research shows that customers attach great importance to both material and immaterial aspects. For instance, the extent to which customers feel that the bank acts in their interests, the identification with the brand, access to the bank's networks and knowledge, the stability/duration of relationships, the way banks deal with environmental and sustainability issues, the degree of product and price transparency, etc.

¹⁸ In France, ECBGs acquired several private banks over the time sample. The rise in market shares in 2009 was partly due to the merger between *Crédit Mutuel* and *Caisse d'Épargne*.

Figure 2. Average market share of deposits, loans and branches of ECBGs (as %)



Source: calculations based on data from individual ECBGs and the ECB

Note: The unweighted market shares pertain to domestic loans to private households (mortgages and/or consumer loans) and domestic retail deposits of households. The market share of branches is defined as the branches of the local cooperative banks as a percentage of total bank offices

8.3. Total loan and deposit growth

Total loan and deposit growth rates shed additional light on the performance and specifics of ECBGs. Figure 3 and Table 2 provide visual and statistical information about total (inter)national credit growth to the non-financial private sector since 1997 for ECBGs (CG_{ECBG}) and entire banking sectors (CG_{TBS}). CG_{ECBG} is fairly stable and equals 8.3 per cent in every sub-period considered. CG_{ECBG} also surpassed CG_{TBS} in every sub-period. Hence, ECBGs are more stable loan providers to the real economy than all other banks. The standard deviation of CG_{TBS} is generally much higher as Table 2 demonstrates.

Table 2. Average loan and deposit growth and loan to deposit ratio

Period	Loan growth		Deposit growth		Loan to deposit ratio	
	(standard deviation in parentheses)		(standard deviation in parentheses)			
	ECBGs	TBS	ECBGs	TBS	ECBGs	TBS
1997-2004	8.3* (2.6)	5.8 (2.6)	5.7* (2.4 [#])	4.0 (2.9)	0.92*	1.31
2005-2011	8.3* (1.8*)	4.7 (5.3)	6.1* (1.4*)	8.1 (6.1)	1.11 [#]	1.18
1997-2011	8.3* (3.4*)	5.3 (4.0)	5.9 (1.9*)	6.1 (5.0)	1.01*	1.25

Source: own calculations based on figures from ECBGs, ECB and national statistics

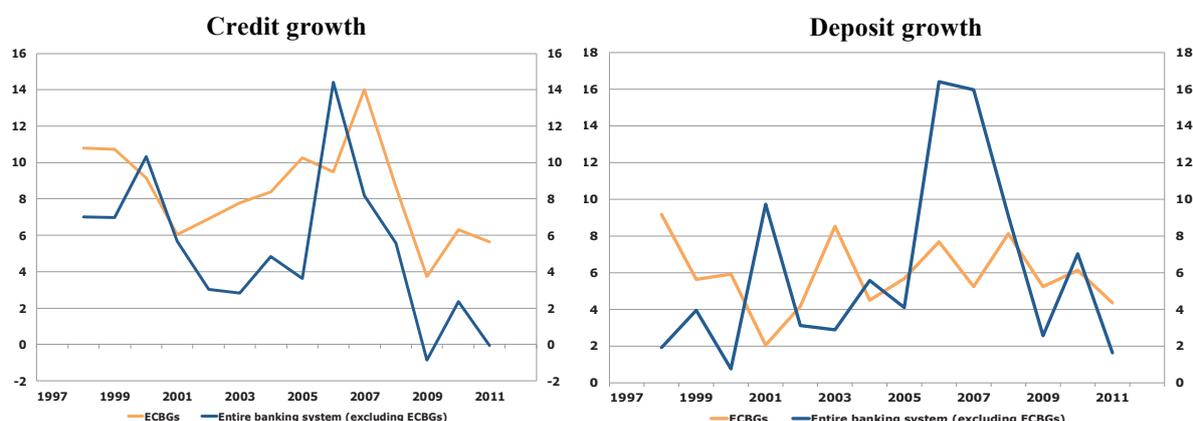
Note: time series are adjusted for major breaks caused by mergers and acquisitions. ECBGs stand for European cooperative banking groups and TBS stand for total banking sectors. Fifteen ECBGs from ten countries are included in the sample. An asterisk (*) and hatch (#) denotes that the variable for European cooperative banking groups is statistically different from that for total banking sectors at the 1% and 5% significance level respectively

Figure 3 shows a considerable deceleration of CG_{TBS} compared to CG_{ECBG} after 2006 which even dropped below zero in 2009 and 2011. CG_{ECBG} also slowed down remarkably, but ECBGs were still in a position to expand their credit portfolios in sub-period 2005-11, which was characterized by economically difficult times. This can presumably be largely ascribed to a relatively good capitalization of ECBGs (see section 7.5 below), which allowed them to meet the credit demand of their customers for a longer period of time. Indeed, quite a few other banks needed state support to survive and consequently had much less

room to grant loans in their deleveraging process. Hence, loan data illustrate the relatively close ties of ECBGs to the real economy as well as their focus on retail lending.

Regarding deposit growth, one can also observe some striking developments over the last decade. Like credit growth, deposit growth at ECBGs (DG_{ECBG}) shows a smooth development compared to that of all other banks (DG_{TBS}). ECBGs experienced a fairly stable growth of an important funding source (deposits); the variance of DG_{ECBG} was significantly lower than the variance of DG_{TBS} . The large swings in DG_{TBS} are remarkable. First, we can witness a sharp acceleration of DG_{TBS} from around 4 per cent in 2005 to about 10 per cent in 2006-08. During this period, private banks presumably needed funding for the strong expansion of their loan portfolios as well as for other investments with higher returns, which appeared to be relatively risky afterwards. Immediately after the initial credit crisis broke out, DG_{TBS} decelerated sharply, which continued in the subsequent years when a deep economic recession and banking crisis unfolded in Europe.

Figure 3. Average credit and deposit growth



Source: ECBGs, ECB and national statistics

Note: ECBGs and TBS stand for European cooperative banking groups and total banking sectors, respectively. The credit data refer to all (inter)national credits and loans to the non-financial private sector of ECBGs and all other banks. The deposit data refer to all (inter)national savings and deposits of the non-financial private sector at ECBGs and other banks

Dividing total loans by total deposits yields so-called loan to deposit ratios (LDRs). These ratios indicate the extent to which banks depend on capital market funding. Over the entire time span and first sub-period, LDR_{ECBG} was significantly lower than LDR_{TBS} . ECBGs are on average less dependent on volatile and uncertain external funding than TBS. However, in the turbulent second sub-period, a remarkable convergence between both LDRs occurred; LDR_{ECBG} increased, whereas LDR_{TBS} decreased. However, the difference remained significant at the 5% confidence level in 2005-11. When the crisis hit, the high LDR_{TBS} proved to be unsustainable and necessitated large scale government intervention and a subsequent cut back in credit growth on behalf of private banks in Europe (CEPS, 2010). LDRs are yet another expression of the different nature of ECBGs with their predominant focus on retail banking.

8.4. Proximity and dense branch networks

Local cooperative banks have historically maintained extensive branch networks to support strong links to their members and communities. Although the urgency to focus on efficiency improvements in physical networks as a result of mobile banking, contactless payments and integrated cash management is

obvious, local cooperative banks still operate with relatively dense networks. The average market share for branch offices even shows an upward trend since 1997. It is approximately 10 percentage points higher than that for loans and deposits. This fact supports hypothesis 1 that local cooperative banks as part of the ECBGs usually have relatively dense branch networks in their home markets. On balance, the number of branches increased from around 54,000 in 1997 to more than 60,000 in 2011, whereas total bank branches decreased from 191,000 to 170,000 over this period. As a result, ECBGs have strengthened their local presence. As a further example of the heterogeneity of ECBGs, Table 1 contains national branch data of local cooperative banks and all other banks. The table reveals that the market share increase of cooperative banks was predominantly due to the expansion of branch office networks in Italy, Spain, France, Portugal and Denmark, respectively. The rise in branch market share is to a lesser extent caused by the fact that ECBGs have slimmed down the number of branch offices to a somewhat lesser extent than their competitors in respectively Switzerland, Germany and the Netherlands. Here, the strong consolidation in both the Netherlands and Germany catches the eye. On the other hand, Austrian and Finnish ECBGs lost branch market share, because they closed down branches whereas all other banks actually opened new bank offices.

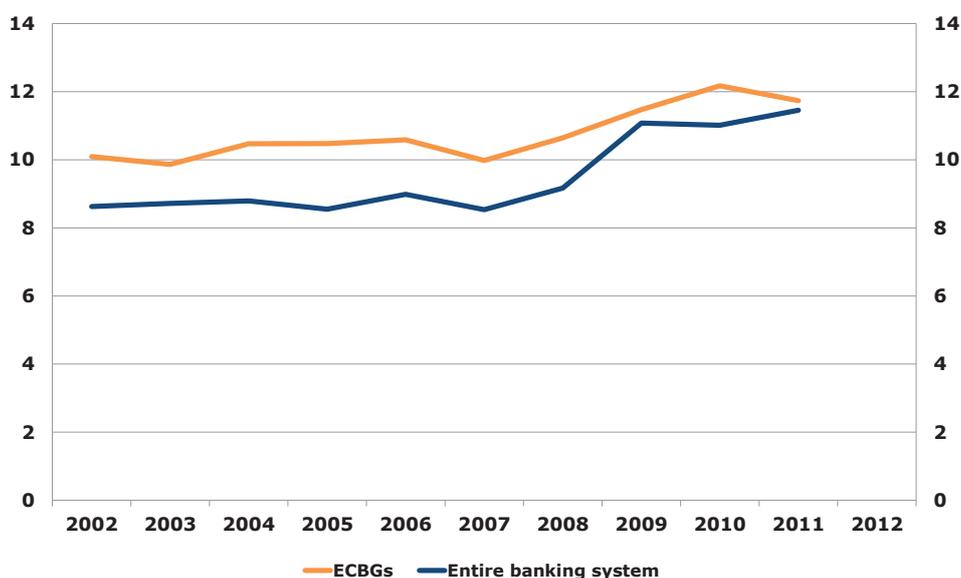
8.5. Capitalization

Figure 4 shows the average tier-1 ratio for ECBGs ($\text{tier-1}_{\text{ECBG}}$) and national banking sectors. This ratio reflects the amount of equity relative to the risk-weighted assets of ECBGs and national banking sectors. It can be concluded that ECBGs maintain a comparatively high level of capital, e.g. the risk profile of ECBGs is more conservative than that of all other banks. There are a number of explanations for this (Oliver Wyman, 2008). Firstly, high capitalisation is connected with the strong focus of ECBGs on retail operations, for which relatively high capital requirements prevail. Secondly, ECBGs add a major portion of their profit to the capital reserves each year¹⁹. In effect, they build the core of their equity base the hard way, through increasing retained earnings. Thirdly, solid capitalisation is simply necessary for ECBGs with a view to continuity. ECBGs have less additional options to raise capital – after sizeable losses – than investor-owned banks, as most of them cannot issue shares²⁰. Besides, this fact could mitigate the risk appetite of executives, because they know that capital cannot be easily replenished after incurring considerable losses.

¹⁹ However, some ECBGs do pay limited dividends to members.

²⁰ This impossibility to issue shares on the stock exchange is not a feature exclusive to most non-listed ECBGs, though. The recent financial crisis has demonstrated that some (or quite a few) listed banks were unable to issue shares, when their capital vanished into thin air as a result of substantial losses and write-downs. Instead, quite a few listed banks had to be rescued by some form of state support. Moreover, without a certain profit level, investors will not be inclined to buy additional shares. Consequently, the bank in question will be unable to expand its capital buffer by issuing new shares.

Figure 4. Tier-1 ratio



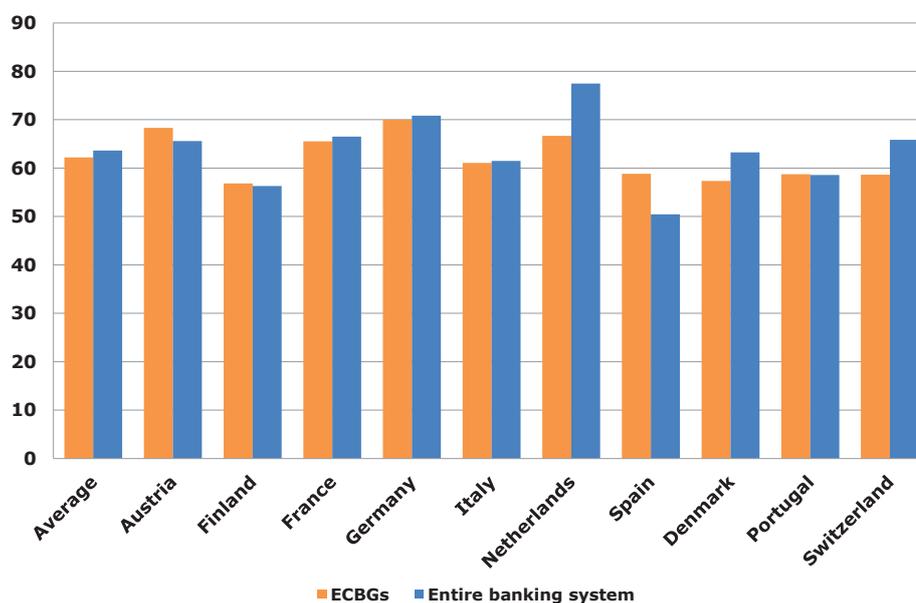
Source: ECBGs, ECB, IMF and national supervisory agencies

Figure 4 shows that ECBGs entered the crisis period starting in 2007 with a relatively strong capitalization and even strengthened their capital position up to 2010 independently. In 2008 and 2009, quite a few private banks improved their battered capital positions with government aid or acquired fresh capital. In 2011, tier-1_{ECBG} declined somewhat, whereas tier-1_{TBS} continued to improve slightly. This development is again a reflection of the strong focus of ECBGs on serving the real economy. At that time, many European countries just had gone through a major recession or even re-entered into a new one following the credit crisis. Given the emphasis on retail banking, the rising number of failures in the SME sector hit cooperative banks relatively hard.

8.6. Efficiency

If the claims regarding the business orientation and principles of ECBGs are true, benchmarking of expenses and revenues of ECBGs against banking sector standards is somewhat misleading. Be that as it may, it is a fact that ECBGs face competition from other banks with increasingly sophisticated social agendas and less emphasis on profit maximization. Hence, ECBGs must build scale and operate efficiently to withstand competition. Figure 5 displays cost-to-income ratios for ECBGs (CI_{ECBG}) and the entire banking sectors (CI_{TBS}) in individual countries. Over different sub-periods, CI ratios of individual ECBGs do not deviate significantly from CI ratios of the entire banking sector. This is in line with other preliminary and less comprehensive studies (Moody's, 2003; Čihák and Hesse, 2007; Oliver Wyman, 2008). Moreover, the higher costs of relatively extensive branch networks of ECBGs were more than offset by higher revenues. This outcome suggests that they use their assets and capital base in an efficient way.

Figure 5. Average cost-income ratios (2002-2011)



Source: ECBGs, ECB and national supervisory authorities

8.7. Stability

We measure the stability of ECBGs and entire banking systems by using the Z-score. The Z-score is a widely used measure of bank's distance to default (Laeven and Levine, 2009; Mercieca *et al.*, 2007) that is monotonically associated with the bank's probability of failure (thus bank risk is defined as the inverse of the Z-score). This variable is defined as:

$$Z\text{-score}_i = (ROA_i + E_i/A_i) / \sigma(ROA_i),$$

where:

ROA is the Return on Assets.

E/A stands for equity capital over total assets.

$\sigma(ROA)$ is the standard deviation (volatility) of ROA calculated as a four-year rolling time window²¹.

i denotes European cooperative banking groups (ECBGs) or total banking systems (TBS).

²¹ While in large parts of the literature the volatility of ROA is computed over the full sample period, we use the average $\sigma(ROA_i)$ for the period 2002-05 and a four-year rolling time window for $\sigma(ROA_i)$ to allow for time variation in the denominator of the Z-score starting in 2006. This approach avoids that the variation in Z-scores over time is exclusively driven by variation in the levels of capital and profitability.

Figure 6. Average Z-scores



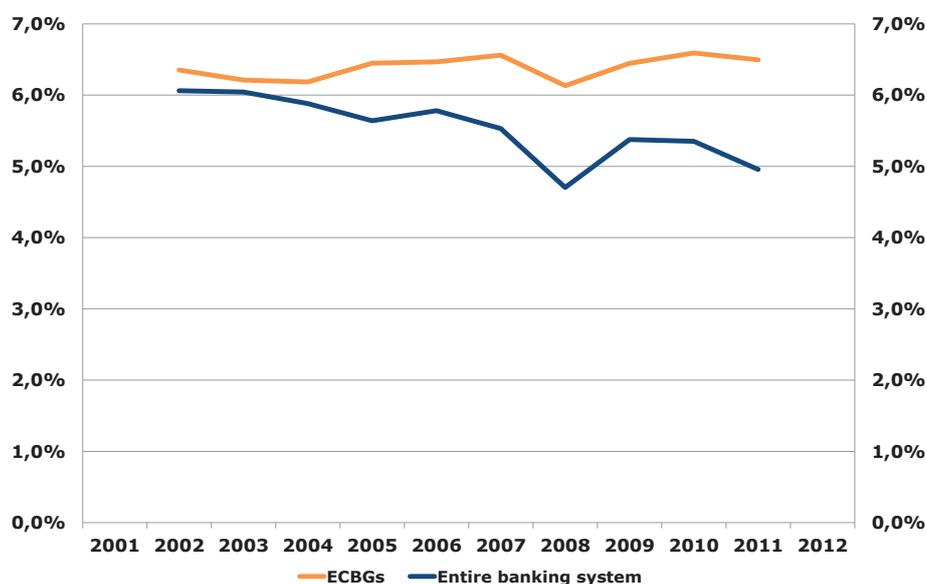
Source: calculations based on data from ECBGs, European Central Bank, International Monetary Fund and national supervisory authorities.

Note: the figure displays the average Z-score of fifteen ECBGs in ten countries and the Z-score of the entire banking sector in these countries

A higher Z-score implies a lower probability of insolvency. Figure 6 shows that the average Z-score for ECBGs (Z_{ECBG}) has always been much higher than that of total banking sectors (Z_{TBS}). This finding is in line with earlier studies (Čihák and Hesse, 2007). Formal tests confirm that Z_{ECBG} is always significantly higher than Z_{TBS} at the 1% confidence level. One can also observe that the stability of ECBGs was negatively impacted by the financial turbulences after 2007. Z_{ECBG} dropped from almost 120 in 2007 to less than 60 in 2008, but remained well above Z_{TBS} . Entire banking systems were fairly unstable with a Z_{TBS} of less than 20 in 2008/9. During these years, quite a few investor-owned banks had to be supported with state aid or were nationalized to maintain financial stability and confidence among the public (CEPS, 2010). In 2010 and 2011, national banking systems showed a fragile recovery with a slight improvement in Z_{TBS} . This picture does not hold for ECBGs. After reaching its low in 2009, Z_{ECBG} exhibited a strong recovery in the last two years, which points to the resilience of ECBGs.

Looking at the three components of the Z-score, we find that the first component, “the ratio of equity/total assets” (E/A), is systematically higher for ECBGs (E/A_{ECBG} , see Figure 7). This supports hypothesis 4 that ECBGs maintain larger capital buffers, on average. E/A_{ECBG} remained fairly stable up to 2007, but dropped in 2008. This decline stayed well behind the decrease of E/A_{TBS} , which already began in 2005. Anyway, ECBGs banks entered the crisis with larger buffers, which calls for the qualification that in good times high buffers are viewed as “non-productive” as voiced by some earlier critical analyses of ECBGs (PA Consulting 2003). On the contrary, the pendulum has swung to the other side. Improving the resilience of financial institutions by raising capital (and liquidity) requirements is one of the key reforms that followed the financial crisis. Some improvement in E/A_{TBS} occurred in 2009, partly due to capital injections by national governments and deleveraging by many banks. This rise did not inaugurate a clear trend reversal, as E/A_{TBS} dropped again below 5% in 2011.

Figure 7. Average Equity to Assets ratio



Source: calculations based on data from ECBGs, European Central Bank, International Monetary Fund and national supervisory authorities

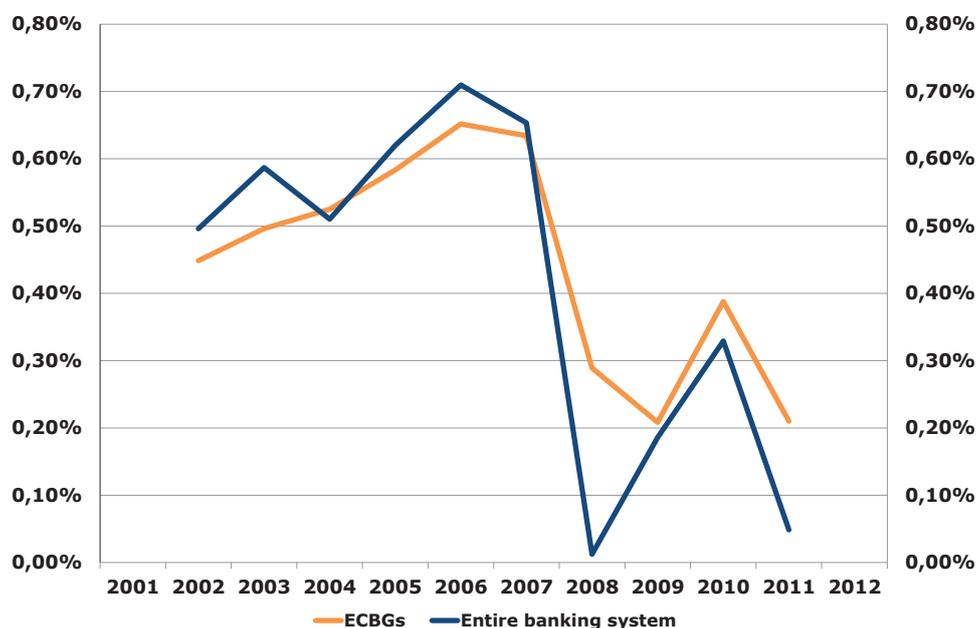
Note: the figure displays the average E/A ratio of fifteen ECBGs in ten countries and the average E/A ratio of the entire banking sector in these countries

The second component of Z_{ECBG} , the return on assets (ROA_{ECBG}), is a widely used proxy for profitability. Earlier assertions fuel the expectation that ECBGs have below average profitability, as they target customer-value maximisation instead of profit maximisation and operate with higher levels of equity. Our calculations show that ROA_{ECBG} is not statistically different from the return on assets of total banking systems (ROA_{TBS}) over the whole period and in 2002-06. This picture changes in the time span 2007-11, when the average ROA_{ECBG} was significantly higher than ROA_{TBS} . ECBGs were obviously affected by the subsequent crises, but ROA_{ECBG} fell less sharply than ROA_{TBS} .²²

On the face of it, this finding does not seem to be in line with hypothesis 1 that ECBGs would have a lower ROA due to their lower profit requirements stemming from their member influence and focus on retail banking. However, this finding can be plausibly explained by the fact that ECBGs were to a lesser extent involved in riskier wholesale operations and expanded their credit portfolios rather moderately in the years before the crisis. Hence, ECBGs experienced fairly limited losses and write downs. Groeneveld (2011) estimates that the ECBGs share of the total losses and write-downs of all European banks during the first years of the crises was around 8 per cent, which is much smaller than their overall market share. In other words, the divergent development of ROA_{ECBG} and ROA_{TBS} confirms hypothesis 3. It should be stressed that the general situation in banking remains rather troublesome as illustrated by the sharp drop in ROA in 2011. It is generally expected that profitability in banking will definitely not return to the levels prevailing before 2007. There is general agreement that the situation in banking was not sustainable at that time. Moreover, due to their close ties with the real economy, ECBGs probably suffer more from economic slack in local economies and declining industries in the regions where they operate.

²² A similar pattern emerges for the return on equity (ROE), with one notable exception. In the sub-period 2002-06, ROE_{ECBG} was significantly lower than ROE_{TBS} . The opposite is true for the time span 2007-11. Over the entire period, ROE_{ECBG} and ROE_{TBS} were exactly the same (7.8 per cent). The volatility of ROE_{ECBG} is consistently lower in every sub-period.

Figure 8. Average Return On Assets



Source: calculations based on data from ECBGs, European Central Bank, International Monetary Fund and national supervisory authorities

Note: the figure displays the average ROA of fifteen ECBGs in ten countries and the ROA of the entire banking sector in these countries

The third component of the Z-score, the volatility of returns, is significantly lower at ECBGs in all sub-periods, again in line with hypothesis 3. This can be largely explained by the relatively extensive retail operations of cooperative banks, which on the whole generate more stable profits. However, we have to stress that the standard deviation almost doubled in the second time span for ECBGs as well as for the banking systems as a whole.

9. Conclusions

This article is contributing to a balanced view of ECBGs by describing their historical characteristics and investigating empirically to what extent their recent performance is connected with their proclaimed specific and historical features. In this respect, it may be considered as one of the first statistically-based evidence on the relationship between the original specificities of ECBGs and their performance in economically good and bad times over the past fifteen years. This article stresses that cooperative banking is not better or worse than other banking models and not a panacea for post-crisis banking in general²³. It can only be considered as a viable and parallel alternative particularly to investor-owned banks which have been in the spotlight for most of the time in recent decades.

The main message is that the overall performance is still largely explicable by the original features and roots of ECBGs. These characteristics still knock about in ECBGs that eventually emerged from local

²³ Gutiérrez (2008) points to the fact that there have been at least 20 cases of Italian cooperative banks with special administration procedures since 2000.

credit cooperatives established more than a century ago. Using a new comprehensive data base, we find that this conclusion holds in recent times of economic distress as well as in those of prosperity. This also implies that we cannot reject many unfounded assertions from earlier studies and reports about the impact of the characteristics and business orientation on the financial performance of ECBGs in economic recessions and financial crises. The specific ownership structure at the local level still appears to result in a focus on retail banking (see also Oliver Wyman, 2012), a moderate risk appetite, stable operations and solid capitalization for ECBGs. Indisputably, the economic and financial performance of ECBGs has deviated from that of all other banks in different phases of the latest business cycles.

From different angles, we find statistical support for most of the formulated hypotheses which were derived from unverified or poorly substantiated statements and rather partial analyses with deficient data material in previous policy documents and research papers. Table 3 summarizes the various sub-hypotheses and records whether they can be accepted or must be rejected on the basis of our empirical analysis. It should be noted that the postulations are stated in relative terms, i.e. ECBGs are compared to all other banks in the countries under review.

From a policy point of view, it is important to acknowledge that the specific governance and ownership structure of ECBGs apparently leads to relatively stable institutions and a relatively stable performance (López-Puertas Lamy, 2012). This result has important implications for academics and policy makers alike, since it indicates that ignoring this ownership structure can lead to erroneous banking regulations which may eventually undermine the positive impact of the specific governance on ECBG's stability and hence the stability of entire national financial systems.

As final remarks, we have to make some qualifications. Firstly, the performance and stability of ECBGs have been assessed in relative terms, i.e. *vis-à-vis* all other banking groups. In absolute terms, the performance and stability of all ECBGs have deteriorated in recent years. The crises had a negative impact on ECBGs, proving that they are not immune to economic and financial shocks. Nowadays, ECBGs are confronted with increased volatility in results, a surging number of bankruptcies of local SME firms, a damaged reputation of the entire banking industry and an explosion of regulatory and compliance measures and costs. At the same time, access to external funding and accumulation of capital via retained profits have become more difficult. They cannot hide from cost reductions and efficiency improvements to remain competitive, financially solid and hence viable. In addition, they face an important internal challenge. ECBGs have to safeguard or improve internal governance structures to enable members to preserve the cooperative nature of their local banks and to determine the strategic course of the entire organization²⁴. In short, it will always remain an open question whether ECBGs will manage other future economic and financial crises equally well or will succeed in keeping their overall course and operations closely aligned with member interests in the future.

²⁴ It is impossible to prove whether the functioning of the cooperative governance and strategic decisions represent members' will and interests.

Table 3. Assessment of formulated (sub-)hypotheses about ECBGs (1997-2011)

<i>Hypothesis</i>	<i>Assessment</i>	<i>Explanation</i>	<i>Empirical evidence</i>
Customer focus, customer interests' first, long-term relationships	Undecided	Absolute and relative increases in members and rising domestic loan and deposit market shares are no "hard" empirical proof that local cooperative banks have a strong customer orientation. However, loan growth of entire ECBGs is less cyclical than that of all other banks. Besides, deposit growth is higher in economically difficult times, pointing to some safe haven effects. It is unknown whether the level of customer satisfaction and/or advocacy at ECBGs differs significantly from that of other banks.	None or implicit at best (rising domestic market shares and numbers of members)
Presence value			
1. Impact on macro and local economy	Trivial	This assertion is awkward. Every bank creates jobs and contributes to economic growth due to its intermediary role. It is impossible to investigate whether ECBGs perform better in this respect.	No adequate data or indicators are available
2. Impact on banking market structures	Partly investigated and accepted	It is difficult to demonstrate a noticeable causal relationship between ECBGs and structural characteristics of banking markets. Such a causality is hard to demonstrate empirically, because it also works the other way around: the market environment influences cooperative banks. However, ECBGs do contribute to the stability of national banking systems and diversity in banking and have a focus on retail banking and serving the real economy. It has not been investigated how ECBGs influence the overall competitive environment in banking.	Z-scores point to positive impact on stability and diversity Impact on competitive conditions is not investigated
3. Impact on banking conditions for customers	Not investigated	The impact of ECBGs on (the quality of) products & services, distribution methods, innovation and price conditions in banking is not investigated (and would be very difficult).	No adequate data or indicators are available
Dual bottom line approach	Not investigated	The cooperative local banks within ECBGs are also believed to aim at contributing to a sustainable development of their members' local communities and to be engaged in many local networks. This statement is very difficult to substantiate with empirical data.	No adequate data or indicators are available
Physical proximity	Accepted	ECBGs have relatively dense branch networks in the domestic cooperative banking part.	Market share for branches
Austerity and efficiency in operations	Accepted	Over the entire period, ECBGs have operated with similar efficiency ratios as other banks (despite relatively expensive distribution methods in accordance with their historical roots). ECBGs were even significantly more efficient in the period 2008-11, where many other banks witnessed a larger drop in (volatile) revenues and a greater surge in (funding) costs following the initial credit crisis.	Cost to income ratios
Focus on retail banking and the real economy	Accepted	ECBGs are more stable loan providers to the real economy. They had a better loan to deposit ratio before the crisis hit. In 2010 and 2011, the impact of the economic recession is visible in declining profits (due to rising bankruptcies of SME's).	Loan and deposit growth and loan to deposit ratio
Moderate/lower returns on assets and equity	Rejected	Despite the absence of profit targets, ROA/ROE_{ECBG} is similar to ROA/ROE_{TBS} in 2002-11, and even significantly higher in 2005-11. This is partly due to relatively large losses and write-downs at other banks.	ROA and ROE
Stable organizations	Accepted	Z_{ECBG} is significantly higher than Z_{TBS} . The volatility of ROA_{ECBG} and ROE_{ECBG} is consistently lower. ECBGs have a lower risk appetite in booming times and less risk aversion in bad times. Deposit growth (DG_{ECBG}) exhibits a more stable pattern.	Z-scores, ROA and ROE, loan and deposit growth
High capitalization	Accepted	Most capital has been built up via retained earnings. Tier 1 _{ECBG} and E/A _{ECBG} consistently surpass Tier 1 _{TBS} and E/A _{TBS} .	Tier 1 and E/A ratios
Moderate risk profile	Accepted	Focus is on retail banking which is a less risky activity. Besides, ECBGs did not need large scale state support in recent years.	Loan to deposit ratio
Low cost of capital	Not investigated	The high capitalization and the high deposit base could make it cheaper for ECBGs to obtain external funding.	Information is not readily available
High ratings	Not investigated	Some ECBGs are not supervised on a consolidated basis. Hence, no overall ratings exist for these ECBGs.	No overall ratings exist for many ECBGs

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