



## **Members of cooperatives in corporate governance: How should European cooperative banks cooperate?**

---

**Author:**

Olivier Boned, Institutional and International Relations Manager, Confédération Nationale du Crédit Mutuel, Ph.D in Management Science

**Contact:** Olivier Boned, [olivier.boned@creditmutuel3d.com](mailto:olivier.boned@creditmutuel3d.com)

**Summary of the statement:**

The (re)discovery of a specific form of corporate governance by cooperative banks has occurred in stages. EACB thus reviewed the notions of values (EACB, 2004) and corporate social responsibility (EACB, 2005) in order to eventually produce a report on corporate governance (EACB, 2006).

The specific feature of such corporate governance may be a factor differentiating cooperative banks from other economic agents. The issue then consists in checking as to whether cooperative banks are able to convey this difference. Our approach thus consists in reviewing the arguments that are used by cooperative banks in their annual reports in order to point out, where applicable, their specific corporate governance mode. More specifically, we shall try to discern what messages are related to the membership system.

Indeed, the existence of members is one of the major differences between cooperatives and any other type of enterprise. Members are, at the same time, the basis and justification of cooperative enterprises. This issue deserves specific and educational communication efforts. If all members have the same voting right in the cooperative's general meeting, this feature imposes an obligation to communicate and explain the place of each member in this original system. Members thus exercise a major influence on the governance systems, as they elect from among their number the local and national representatives.

Many pressing questions must then be answered: is the information that is provided in annual reports always sufficient in order to respond to this challenge? Do the communication efforts made in the annual reports reflect the intent to adopt an educational approach vis-à-vis members? Finally, do cooperative banks present this democratic advantage as a major difference when communicating with the general public?

## Introduction

The corporate governance dynamic extends well beyond the cooperative movement. As a case in point, in the United States, pension funds have imposed, on listed companies, more stringent transparency and control requirements. The announced objective has then consisted in protecting the fund's interests against corporate management which could focus on its own interests to the detriment of investors. Non-executive directors have thus become the "Keepers of the Gate" and have seen their role greatly increased in this typical shareholder structure.

However, this brutal reaction has had the merit of enabling all economic players to review their own corporate governance model. Cooperatives, and in particular cooperative banks, have not avoided this trend and have embarked on this research, in a recurrent and increasingly thorough manner, over the last few years (Di Salvo, 2003). This trend was confirmed again in 2006 (Pflimlin, 2006; EACB, 2006). As if it were an attempt to confirm this trend, the general meetings of several cooperative banks have started to tackle this issue, such as Rabobank, the Dutch cooperative, in 2005<sup>1</sup>.

This (re)discovery of a specific form of corporate governance by cooperative banks has occurred in stages. EACB thus reviewed the notions of values (EACB, 2004) and corporate social responsibility (EACB, 2005) in order to eventually produce a report on corporate governance (EACB, 2006).

The specific feature of such corporate governance may be a factor differentiating cooperative banks from other economic agents. The issue then consists in checking as to whether cooperative banks are able to convey this difference. Our approach thus consists in reviewing the arguments that are used by cooperative banks in their annual reports in order to point out, where applicable, their specific corporate governance mode. More specifically, we shall try to discern what messages are related to the membership system.

Indeed, the existence of members is one of the major differences between cooperatives and any other type of enterprise. Members are, at the same time, the basis and justification of cooperative enterprises. This issue deserves specific and educational communication efforts. If all members have the same voting right in the cooperative's general meeting, this feature imposes an obligation to communicate and explain the place of each member in this original system. Members thus exercise a major influence on the governance systems, as they elect from among their number the local and national representatives.

Many pressing questions must then be answered: is the information that is provided in annual reports always sufficient in order to respond to this challenge? Do the communication efforts made in the annual reports reflect the intent to adopt an educational approach vis-à-vis members? Finally, do cooperative banks present this democratic advantage as a major difference when communicating with the general public?

---

<sup>1</sup> Rabobank Group, Annual Report 2005, p. 11.

# I. Statement of the corporate governance principles

## 1. Current promotion of cooperative principles

The corporate governance of cooperatives is part of a broader dynamic for the promotion of cooperatives' specificity and originality. A concerted action led by European cooperatives has enabled them to obtain a European cooperative status<sup>2</sup> or secure the recognition of their contribution upon the latest enlargement of the European Union<sup>3</sup>. Such recognition by the European institutions is the result of a cooperative effort made by all cooperatives. A platform common to 267,000 cooperatives in 33 European countries thus emerged in 2005<sup>4</sup> under the name "Cooperatives Europe"; this structure now represents ICA's European region. This process is largely explained by the common principles shared by cooperatives.

Certain major principles define cooperatives and their specific corporate governance features. The International Cooperative Alliance (ICA) has prepared a list of principles upon which cooperatives rely worldwide in order to conduct their operations. While certain specific regional principles are found throughout the world, seven major principles are predominant. More specifically, cooperatives are marked by the following:<sup>5</sup>

- ⇒ open and voluntary membership,
- ⇒ democratic management by members,
- ⇒ economic involvement of members,
- ⇒ autonomy and independence vis-à-vis any external power,
- ⇒ training and information duties,
- ⇒ tendency to cooperate with other cooperatives and involvement in community life.

These principles have an impact on the corporate governance mode. Members join a cooperative on a fully voluntary basis and thus become able to participate in the decision-making and control process. Cooperatives are thus organisations governed by their members and for their members and are not subject to any reporting obligation to any third party.

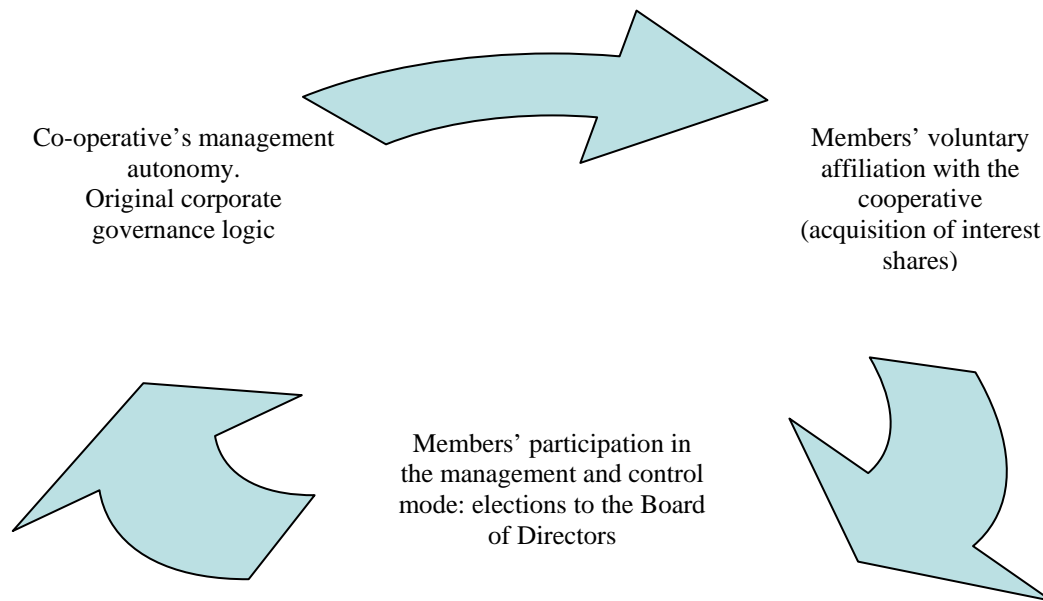
---

<sup>2</sup> "Status of the European cooperative company", *website of the European Commission* [online], in <http://europa.eu/scadplus/leg/fr/lvb/l26018.htm> (Page visited on 22 August 2006).

<sup>3</sup> "Communication on the promotion of cooperative companies in Europe", *Eur-Lex website* [online], in [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexplus!prod!DocNumber&lg=fr&type\\_doc=COMfinal&an\\_doc=2004&nu\\_doc=18](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!DocNumber&lg=fr&type_doc=COMfinal&an_doc=2004&nu_doc=18) (Page visited on 22 August 2006).

<sup>4</sup> *Website of Cooperatives Europe* [online], in [http://www.coopseurope.coop/article.php3?id\\_article=1](http://www.coopseurope.coop/article.php3?id_article=1), (Page visited on 22 August 2006).

<sup>5</sup> *Website of the International Cooperative Alliance (ICA)* [online], in <http://www.ica.coop/coop/principles.html>, (Page visited on 24 June 2006).



Cooperatives are based on their members' equal participation in corporate governance, as shown in the "one person, one vote" principle. Far from being anecdotal, this principle emphasizes the fact that all decision-making and control systems are based on members' involvement in the organisation. This is shown by the election of members to the local, regional and national boards. Members are, at the same time, shareholders and clients of this organisation in which they may be elected to the positions of directorships, in most cases without receiving any compensation.

The above comments highlight the fact that cooperatives are fully dedicated to serving their members and that their very purpose is to be found in such service.

#### *Recognition of the principles in the reports*

While certain cooperative banks expressly recognize and state ICA's principles, as is the case for the Lithuanian Central Credit Union<sup>6</sup>, other cooperative banks, representing the majority, tend instead to refer to certain principles.

Landshypotek, the Swedish cooperative bank, describes itself as a unique member-owned form of association<sup>7</sup>. Certain cooperative banks are aware of having a potential whose importance is quantitative as well as qualitative. As a case in point, DZ Bank clearly emphasises that 30 million "consumers" are directly linked to the cooperative model: "*the German cooperative sector's roughly 30 million customers represent a unique buy-side potential that DZ Bank is able to service 'from one source.'*"<sup>8</sup>

Cooperative banks, such as the Swiss Raiffeisen Group, may also describe cooperative principles as components of their corporate strategy: "*With its basic strategy approved in 2004, Raiffeisen continues to proclaim fundamental cooperative values. In the instant case, this implies 'the creation and maintenance of the support group, the creation of intangible and tangible values, the subsidiary principle and democracy (...).'*"<sup>9</sup>

<sup>6</sup> Lithuanian Central Credit Union, Annual Report 2004, p. 11.

<sup>7</sup> Landshypotek, Landshypotek Annual Report 2003, p. 6.

<sup>8</sup> DZ Bank, Annual Report 2005, Shaping success together, 2005, p. 4.

<sup>9</sup> Groupe Raiffeisen, 2005 Management Report, p. 34.

Common wisdom has it that the cooperative system creates an advantage. While the cooperative nature of these organisations is difficult to define, it can nevertheless be presented in their annual reports.

### *The cooperative philosophy*

An ongoing and recurrent theme consists in a reference to the philosophy that led to the creation of the organisation. This philosophy may be characterized as “cooperative” or refer to one of the two major European pioneers, i.e. F.W. Raiffeisen and H. Schulze-Delitzsch.

The cooperative movement’s past philosophy is strongly rooted in the organisations, which always refer to its guiding principles. The very names of cooperative organisations refer to founders, as is the case in Luxembourg (Raiffeisen Bank), in Austria (Fachverband der Raiffeisenbanken) and in Germany (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken). Other institutions, such as the Raiffeisen Group in Switzerland, emphasize their belonging to a community related to the image of an internationally recognised founder: *“the Raiffeisen concept is spreading throughout the entire world, with more than 900,000 cooperatives active in approximately one hundred countries and grouping more than 500 million members (...).”*<sup>10</sup>

Also – and this might qualify the above observations – the philosophy is difficult to define, or even to explain.

This philosophy remains a vague notion that may even be difficult to define by the authors themselves. More specifically, while the Raiffeisen Bank in Luxembourg defines itself as *“a universal and independent Luxembourg bank relying on the cooperation philosophy”*<sup>11</sup>, other banks, such as the Raiffeisen Group in Switzerland, refer to *“the membership philosophy,”*<sup>12</sup> without referring more specifically to its nature.

## **2. The member: the mainstay of cooperative governance**

A relatively large number of cooperative banks include, in their communication policy, references to members and their role in the governance process. The role of members has several positive effects and strengthens the trust in members and their organisation<sup>13</sup>. This turns the member into a central player of the cooperative governance process. This governance process is based on the democratic consensus<sup>14</sup> and enables members to be major players because of the “one person, one vote” principle, characterizing a type of governance based on local proximity and supporting the cooperative’s lasting survival.

### **2.2. Express emphasis on the governance principle: “one person, one vote”**

Whenever this issue is addressed, the message of annual reports clearly highlights the members’ place in the governance process. Each member clearly holds a vote in the

---

<sup>10</sup> Raiffeisen Group, 2005 management report, p. 37.

<sup>11</sup> Raiffeisen Bank, 2005 annual report, p. 13.

<sup>12</sup> Raiffeisen Group, 2005 management report, p. 10.

<sup>13</sup> *“The values linked to the cooperative model strengthen the relationship between members, clients and the Raiffeisen organisation”*, in Raiffeisen Group, 2005 management report, p. 48.

<sup>14</sup> *“Furthermore, the Central Delegates Assembly has substantive discussions which mainly concern the business of the local Rabobanks. These discussions are held not only as part of the Central Delegates Assembly’s specific duties and powers, but also with the aim of encouraging commitment and consensus between the local Rabobanks and Rabobank Nederland”*, in Rabobank, 2005 annual report, p. 51.

democratic process in accordance with the “one person, one vote”<sup>15</sup> democratic principle. The members’ role is often well explained, and certain cooperative banks even emphasize the importance that directors must give to their role consisting in the definition of the local<sup>16</sup>, or even national strategy, depending on the levels concerned.

The fact that members elect the directors from among their number is clearly stated and explained<sup>17</sup>. Finally, the presentation of the member’s role in the election is generally not expanded upon, is sometimes approached in a technical manner, or may be treated too swiftly between major principles and concrete applications.

## ***2.2. Members: local players, proximity players***

The active role of members in the decision-making process, immediately at the local level of the organisation, facilitates enhanced awareness and factoring in of local expectations. Members have the merit of relying on specific expertise, as the products and services are intended for them. This is one of the arguments most frequently stated in annual reports.

Members, who play a major role in cooperative banks, which are generally not centralised<sup>18</sup>, are also responsible for promoting their cooperative bank locally. As their cooperative bank creates a genuine economic and social plus on a given territory (Rabobank calls this the “cooperative dividend”<sup>19</sup>), members and local directors must convey cooperative actions within the local community<sup>20</sup>. This local rooting turns local directors into the cooperative bank’s “ambassadors” (Crédit Mutuel)<sup>21</sup>.

## ***2.3. Ownership of the cooperatives***

This corporate governance principle stresses the relationship between ownership and decision-making power. Historically, cooperatives were created when individuals decided to pool their resources in order to meet a collective requirement. Therefore, cooperatives are a tool owned by their members who accordingly decide on its use. The link is thus expressly stated, and cooperatives are actually owned by members<sup>22</sup> who are not “*typical shareholders*.”<sup>23</sup>

## ***2.4. Long-term approach – Relationships among generations – The Member’s commitment***

---

<sup>15</sup> Group OP Bank, Annual Report 2006, p.18 ; Banco Credito Cooperativo, p. 12; Crédit Mutuel, Annual Report 2006, p. 12; Crédit Cooperatif, Annual Report 2006, p. 16; Raiffeisen Group, Management Report 2005, p. 72.

<sup>16</sup> Irish League of Credit Unions, Annual Report 2006, p. 20.

<sup>17</sup> Banques Populaires Group, Annual Report 2006, p. 27 ; Crédit Mutuel, Annual Report 2006, p. 12 ; Rabobank, Annual Report 2006, p. 65; Banco Credito Cooperativo, Social Assessment 2006, p. 23; Group OP Bank, Annual Report 2006, p. 18; Irish League of Credit Unions, p. 20; Banques Populaires Group, Annual Report 2006, p. 27; Raiffeisen Group, Management Report 2005, p. 54.

<sup>18</sup> BVR, Annual Report 2006, p. 2.

<sup>19</sup> Rabobank, Annual Report 2006, p. 83.

<sup>20</sup> Group OP Bank, Annual Report 2006, p. 18; Banco Credito cooperativo, Social Assessment 2006, p. 23; Rabobank, Annual Report 2006, p. 83.

<sup>21</sup> Crédit Mutuel, Corporate Social Responsibility Report, 2006, p. 19.

<sup>22</sup> Groupe Banques Populaires, Annual Report, 2006, p. 35; Landshypotek emphasises its belonging (“*member-owned*”) to its 64,000 members in Landshypotek, 2003 Annual Report, p. 6 ; “*the cooperative banks are owned by their members*” in OKO Bank, Annual Report 2005, p. 8; “*The cooperative bank’s membership shares belong to their members*”, in BVR, Consolidated Annual Accounts of the cooperative Financial Services network, 2004, p. 23; Groupe Raiffeisen, Management Report 2005, p. 54.

<sup>23</sup> Groupe Banques Populaires, Annual Report, 2006, p. 45.

The cooperative form makes it possible to maintain stability over time<sup>24</sup>. Certain organisations, such as the Raiffeisen Group in Switzerland, create a link between the cooperative structure and sustainable development, as if both notions were guided by the same logic<sup>25</sup>. This system actually works insofar as members are asked to become involved in the cooperative. Annual reports expressly do this and may emphasize that members are locally committed players<sup>26</sup> and that this commitment that may be dictated by a sense of duty takes the form of a solemn undertaking through the moral adoption of a charter<sup>27</sup>. Members must then display human qualities, such as solidarity, altruism and professionalism (they must undergo a training program when they hold the office of director)<sup>28</sup>.

---

<sup>24</sup> “*The cooperative form of association creates conditions for long term and stable operations*” in Landshypotek, Landshypotek Annual Report 2003, p. 6.

<sup>25</sup> “*The Raiffeisen Group is organised as a cooperative and has always studied sustainable development issues,*” Raiffeisen Group, Management Report 2005, p. 34.

<sup>26</sup> Irish League of Credit Unions, Annual Report 2006, p. 22.

<sup>27</sup> Banco Credito Cooperativo, Social Assessment 2006, p. 22.

<sup>28</sup> Banco Credito Cooperativo, Social Assessment 2006, p. 22-23.

## **II. Members: from oblivion to promotion**

Members are an issue addressed by many cooperative banks, as explained in the first part. However, other cooperative banks may ignore this important difference.

Members are subject to a double negative pressure. First, they may be simply disregarded or forgotten. A number of cooperative banks rely solely on a financial description of their enterprise. A second pressure is even more dangerous, as we witness the emergence of new interpretations, or rather new uses of the notion of membership. It seems that cooperative banks are reinterpreting cooperative values from which they have moved away.

Finally, in cooperative banks that endeavour to keep the membership spirit alive, this system is about to become a communication tool that should powerfully reposition numerous cooperative banking groups over the next few years or even the next few months.

### **1. The forgotten membership system**

The membership system may be forgotten in two ways. First, it may be ignored by the cooperative bank. Second, the membership system may very well be reintroduced with a different meaning. Thus, its intrinsic values are amended and move away from their commonly accepted definition. Both scenarios are often observed in cooperative banks that have non-member shareholders and whose capital structure is no longer wholly owned by members. A cooperative bank choosing a holding company structure or a share ownership structure then tends to eliminate the membership system from its communication policy.

#### ***1.1. Lack of communication concerning the membership system***

The message focused on the membership system may also be replaced by a purely financial approach. This occurs generally in cooperative banks whose ultimate parent company's shareholders do not include members. The distinction between members and shareholders then tends to result in the elimination from the annual report of any explanation concerning members, or even in the removal of any reference to the "one person, one vote" principle, which no longer matches the new ownership modes<sup>29</sup>.

Certain cooperative banks, which also have several types of shareholders, including members and cooperatives, may also circulate a corporate message totally focused on customers, in the same manner as any mainstream company limited by shares. Certain cooperative banks may use management principles largely drawing from the cooperative terminology and myths<sup>30</sup>.

#### ***1.2. Altered cooperative messages***

---

<sup>29</sup> This is the case of most federal structures of Polish cooperatives. These cooperatives may emphasise their links with the history of cooperative development, but may at the same time eliminate any communication on the membership system. The "one person, one vote" rule is relatively difficult to apply to holding structures bringing together various types of shareholders along with cooperative banks. Bank Polskiej Spoldzielczosci SA, Gospodarczy Bank Wielkopolski SA (GBW) and Mazowiecki Bank Regionalny SA (MBR) thus removed, starting from 2000, the "one person, one vote" principle at the level of the ultimate parent companies (SA).

<sup>30</sup> Arbejdernes Landsbank, Annual Report, "Action, results, trust" are the three variables of the "Virtuous Circle" within which employees must act. Members might be involved in this type of virtuous circle... if they were the target, p. 18.

In the second scenario, cooperative banks make poor use of the membership notion and for instance turn it into a mere marketing ploy.

Certain cooperative banks may consider that the main members are their local banks, which are the genuine members of the ultimate holding structures. These banks then focus their approach on the profitability and effectiveness objectives, applied to local banks, which are then seen as the Group's "shareholders"<sup>31</sup>. This approach shows that, behind local banks, the actual members, who are natural persons, are generally forgotten.

Finally, a member may be considered, not as the enterprise's cornerstone, as designated by Rabobank<sup>32</sup>, but as a shareholder enjoying monetary benefits as well as fringe benefits<sup>33</sup>. The membership system then appears to be totally uncoupled from reality in terms of cooperative governance. Certain banks, belonging to cooperative groups but having the status of a limited company, may also rely on cooperative values in order to alter them. These values may then be labelled as social responsibility, customer-only focus or attitudes such as openness and honesty<sup>34</sup>. All of these factors may create messages altering cooperative reality.

Finally, certain changes to the articles of association, discreet though they may be, can have a material impact on corporate governance. The Luxembourg Raiffeisen Bank thus points out that it amended in 2005 its affiliation rules in order to allow non-members to become full-fledged players of the bank's corporate governance system<sup>35</sup>, and this will introduce new modes of representation, other than that in which members are the sole owners of the cooperative.

## **2. Renewed membership: a powerful differentiation factor**

Two trends may be identified in cooperative banks' latest annual reports. First, members are increasingly considered (by those cooperative banks that pay attention to them) as a major corporate asset that must be enhanced. Second, cooperative banks intend to focus their communication more on the membership system in order to turn the same into a differentiation factor vis-à-vis competitors. The membership system may then become a real competitive advantage.

---

<sup>31</sup> "However we will not rest on our laurels, and DZ Bank will be working hard again in 2006 to repeat and extend the successes of our proven business model for the benefit of the local cooperative banks", in DZ Bank, Annual Report 2005, Shaping success together, 2005, p. 11.

<sup>32</sup> Rabobank, Annual Report 2006, p. 17.

<sup>33</sup> "Our presentation on the market is structured around the membership philosophy and the corresponding strengths. This is what makes us different from other banks in Switzerland and gives material benefits to all members. For instance, they are given a preferential interest rate on their savings or receive special offers not directly related to banking operations. In 2004, we offered a stay in Zermatt at half price (...)", in Raiffeisen Group, Management Report 2005, p. 10; "The offering is completed by fund-linked products and especially advantageous offers for cooperative society members," in DZ Bank, Annual Report 2005, Shaping success together, 2005, p. 46.

<sup>34</sup> The Co-operative Bank, Financial Statements 2005, p. 5.

<sup>35</sup> "In connection with an extraordinary General Meeting held at the beginning of September, our cooperative's members unanimously decided to amend the bank's articles of association in order to create the legal framework that is the prerequisite for the opening of our corporate structure to one or more shareholders not included in the category of savings banks or credit unions organised as cooperative companies (...)", in Banque Raiffeisen, Annual Report, 2005, p. 58.

## ***2.1. A marked difference, increasingly visible pride***

Cooperative roots, with the membership system as their major component, are clearly identified as the cornerstone of an original governance system<sup>36</sup>. Members regularly meet in General Meetings and make a real difference<sup>37</sup> as compared with any other enterprise. Such difference then supports the cooperative's real identity<sup>38</sup> which must be promoted.

The membership system, which secures a democratic governance<sup>39</sup>, has now become, for numerous cooperative banks, a key factor of corporate success<sup>40</sup>. In this respect, the role of members in the cooperative bank's governance<sup>41</sup> and involvement in the organisation<sup>42</sup> is henceforth integrated into cooperative banks' strategic plans<sup>43</sup>. "Cooperation's incredible strength"<sup>44</sup> – the slogan used by a Lithuanian bank – might very well announce the membership system's comeback.

## ***2.2. Stronger communication***

One of the issues emphasised by cooperative banks is the need to communicate the benefits to be found in the membership system, which is fully considered to be a differentiating factor and must therefore be promoted.

Communication is internal in nature. Members must be made increasingly aware of their role and their importance in the corporate governance process<sup>45</sup>. This requires written communication (magazines), but also the use of media such as the Internet. In Finland, the OP Bank Group developed a television channel with 200,000 viewers per month and publishes a magazine with the fifth largest circulation nation-wide.

Cooperatives aim at communicating, within their own organisation as well as to the outside world, what makes the membership system actually different<sup>46</sup>.

Other cooperatives also give members a strategic dimension. The membership system deserves to be addressed by a strategy planned over time, in the same manner as, for example, the notion of corporate social responsibility<sup>47</sup>. The membership system, which is also seen as a major corporate governance factor, must advance at the same pace as the enterprise<sup>48</sup>.

---

<sup>36</sup> Rabobank, Annual Report 2006, p. 17.

<sup>37</sup> Crédit Mutuel, Annual Report 2006, p. 19.

<sup>38</sup> Banco Credito cooperative, Social Assessment 2006, p. 14.

<sup>39</sup> Crédit Mutuel, Annual Report 2006, p. 13.

<sup>40</sup> Groupe Banques Populaires, Annual Report 2006, p. 5; BVR, Annual Report 2006, p. 2; Group OP Bank, Annual Report 2006, p. 18.

<sup>41</sup> Rabobank, Annual Report 2006, p. 6 and p. 23.

<sup>42</sup> Banco Credito Cooperative, Social Assessment 2006, p. 22; Crédit Mutuel, Annual Report 2006, p. 13.

<sup>43</sup> Crédit Cooperative, Annual Report 2006, p. 107.

<sup>44</sup> "Incredible power of cooperation!", in Lithuanian Central Credit Union, Annual Report 2004, p. 1.

<sup>45</sup> Rabobank, Annual Report 2006, p. 17.

<sup>46</sup> Rabobank, Annual Report 2006, p. 17.

<sup>47</sup> Crédit Coopératif, Annual Report 2006, p. 107.

<sup>48</sup> Irish League of Credit Unions, Annual Report 2006, p. 15.

## Conclusion

Corporate governance is certainly the cornerstone of cooperatives' originality. By moving away from the principles that guide their practice, cooperatives risk losing what makes such governance genuinely different.

On the contrary, if cooperative principles were simply and clearly reaffirmed, as is already done at present by many cooperative banks, this would enable cooperative banks to reposition themselves as another breed of European entrepreneurs, which focus more on participation and which are more rooted in the reality of the territories and in the expectations of all. This would make it possible to better take into account the interests of all stakeholders and reposition cooperative banks as genuine enterprises based on participation, open to the changing social and human expectations of European fellow citizens. Many reports prepared by cooperative banks state the principles guiding their corporate governance but fail to explain these principles in sufficient detail. This raises another issue: are annual reports the best tools for detailing and promoting corporate governance? Wouldn't it be better to envisage expanding on these principles in a separate report, as certain organisations have already done by preparing a social assessment report<sup>49</sup>? Much more than a reporting issue, the general corporate governance problem needs to be assessed. With its strong specific features, cooperative corporate governance needs to be explained, developed and promoted. Its survival might depend on this.

The real difficulty then consists in expressing and emphasizing, with the right words, the reality of this benefit, which may be a competitive advantage if properly used and applied.

All those who are fully aware of their cooperative identity are undeniably moving towards a clear and assertive statement of the distinguishing features of the membership system, as one of the strong dimensions of their enterprises.


---

<sup>49</sup> Bilancio sociale e di Missione del credito cooperativo, BCC Credito Cooperativo, 2003.

## Bibliography

- BCC CREDITO COOPERATIVO, Bilancio sociale e di Missione del credito cooperativo 2003.
- BVR, Consolidated Annual Accounts of the Cooperative Financial Services Network, 2004.
- CO-OPERATIVE BANK (THE), Financial Statements 2005.
- DI SALVO, Roberto (2003), “The governance of Mutual and Cooperative Bank Systems in Europe”, *Cooperative Studies*, BCC Federcasse.
- DZ BANK, Annual Report 2005, Shaping success together.
- EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS (2006), *Corporate Governance Principles in Co-operative Banks*, EACB.
- EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS (2005), *Corporate Social Responsibility (CSR): The Performance of Cooperative Banks*, EACB.
- EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS (2004), *Co-operative Banks in Europe: values and practices to promote development*, EACB.
- GROUPE RAIFFEISEN, Management Report 2005.
- LANDSHYPOTEK, Annual Report 2003.
- LITHUANIAN CENTRAL CREDIT UNION, Annual Report 2004.
- OKO BANK, Annual Report 2005.
- PFLIMLIN, Etienne (2006), *Cooperatives and mutual societies: an original form of corporate governance*. Report of the working group chaired by Etienne Pflimlin under the aegis of the Institut Français des Administrateurs.
- RABOBANK, Rabobank Group, Annual Report 2005.
- SIFAKIS, Catherine (2006), “Towards a challenge of the specific features of the German cooperative banking group” Communication presented during the “Social Economy in Europe” conference held in Grenoble on 1 and 2 June 2006.

Schedules

		<p align="center"><b>Messages sent to members</b></p>		<p align="center"><b>Messages sent to the general public</b></p>	
<p align="center"><b>Bank</b></p>	<p align="center"><b>Specific features</b></p>	<p align="center"><b>Principles linked to the membership system</b></p>	<p align="center"><b>Educational value / clarity</b></p>	<p align="center"><b>Messages</b></p>	<p align="center"><b>Educational value / clarity</b></p>
<p><b>Arbejdernes Landsbank (Denmark)</b></p>	<p>Created in 1919, Shareholders: Trade unions, political parties, local authorities, various cooperatives</p>	<p>Various types of shareholders, including cooperatives  Cooperatives are shareholders like any other shareholder</p>	<p>No specific messages are conveyed concerning the cooperative forms, and no specific messages are targeted at members.</p>	<p>A broad visibility policy was launched in 2006, with two pillars: as a result of two policies launched in 2007, employees and clients (p.16): branches are more welcoming and employees are better trained in 2007. Marketing campaign (p.17) While messages are primarily aimed at employees, certain of these contents might be addressed to members: action, results and trust are the variables of the “right circle” a sort of virtuous circle that might appeal to members... if they were targeted (p. 18)</p>	<p>“A long and interesting history” (p. 17) on which the bank relies in order to promote its marketing campaign (target: families, argument: diversified products)  Only major management principles are addressed, and the cooperative nature is not dealt with.</p>

<b>Association of Greek cooperative banks</b>	Created in 1995, group of local cooperatives	Absence of any presentation in English of the membership system, which is only focused on the figures stated in the reports		Financial messages only	
<b>Italian National association of Peoples' Banks</b>	2006 Annual report of the Central Institute of Italian Peoples' Banks	The cooperative form and the notion of membership are not covered; the conveyed message is rather financial in nature and targeted at shareholders.			
<b>Ukoospilka Ukraine</b>	No website				
<b>Central cooperative bank of Cyprus</b>	Federation of cooperative banks. General meetings are the governing body, with the "one person, one vote" rule. Cooperative principles are stated on the site, but the report is not available on line.				

<p><b>Federation of German Raiffeisen banks (BVR)</b></p>		<p>The 1,290 local banks, which are the members and owners of the cooperative structure, are the guarantors and best examples of the functioning of a non-centralised cooperative model (p. 2, 2005 AR). The 16 million members of the local cooperative banks are among the key factors of success of the cooperative banking movement.</p>	<p>No presentation of the role of local directors, their voting rights or their function as directors.</p>	<p>Directors and employees are properly trained (€600M in 2004)</p>	
<p><b>Irish League of Credit Unions</b></p>	<p>3 million members</p>	<p>Human and social development, which is the cooperative's vision of social justice, implies that members are <i>de facto</i> concerned and involved (2006 AR, p. 22).</p> <p>Directors are not compensated and may not interfere in day-to-day management, in order to be able to focus on the organisation's strategic dimension. Employees implement their strategic choices (AR, 2005, p. 20).</p> <p>Operating rules are defined by members convened in a general meeting (AR 2005 p. 19).</p>	<p>Lack of educational efforts in order to explain the role of each participant in the democratic system, even though the guiding principles are dealt with.</p>	<p>Decisions are made taking into account all members of the community (AR 2006, p. 22).</p> <p>Need to give a more central place to communication efforts targeting members. Enhanced communication is essential in order to promote major projects (AR 2005, p. 15).</p>	
<p><b>OP Bank Group, Finland</b></p>	<p>OP Bank Group is comprised of 232 cooperative banks (website)</p>	<p>Members are given the opportunity to participate in the bank's management. They promote the cooperative and its economic activities at local level. The "one person, one vote" principle applies to all cooperatives immediately from the basic level. The purchase of one share gives the right to participate</p>	<p>Yes</p>	<p>The Membership system is one of the principles distinguishing relationships with clients (website + AR p. 18).</p> <p>Explains that part of its clients are members (p. 4).</p> <p>The discount is only awarded to loyal clients/members (€48 M was redistributed).</p>	<p>Indicate in the AR on what page they deal with the membership issue in the main body of text (p. 4)</p>

		(p. 18). The general meeting is the governing body.		OP Magazine, 5 <sup>th</sup> largest circulation in Finland.  OP Channel (200,000 regular viewers/month)	
<b>OTSZ, Hungary</b>	Not available in English on the website				
<b>Italian Federation of Rural and Crafts Banks (Federkasse / BCC)</b>	A social assessment is prepared each year and broadly focuses on the role of members in the cooperative system. Reference: social assessment, 2006, Bilancio Sociale e di Missione “consolidato” del Credito Cooperativo 2006.	The “one person, one vote” principle is stated immediately at the beginning of the report (p. 12). First principle: primacy of individuals (p. 22)  Members pledge solemnly to contribute to the development of the cooperative and promote the cooperative in the local environment. They invest in democratic governance, honest solidarity, transparency and altruism (p.23). Directors agree to participate in the board’s work in full independence, to create economic and social value, to dedicate the necessary time and to improve their own training. (p. 23).	The role is not explained in detail, but is strongly promoted.  One of the objectives announced in the report is the intent to promote member participation. The number of communication media is currently being increased (p.47) in particular at the banks and through the Internet (p. 47)	Presents itself as a different system, as it is based on close cooperation among members, with deep territorial roots (p.12).  Since 2007, the “revisione cooperative” process aims at checking the proper implementation of mutualist principles: the report stresses the need to communicate cooperative principles (p.13).  Difference through identity (p. 14).  Promotes members’ participation in the management of cooperatives (p.22).	
<b>KZBS (National Union of Cooperative Banks), Poland</b>	This EIG, created in 1991, does not publish any annual report. Members: cooperative banks, regional associations of banks (limited companies, highly heterogeneous shareholder base) and the audit commissions convened in a general meeting electing a	The articles of association refer to the “one person, one vote” principle regardless of the amount of the contribution paid (calculated according to the amount of the commitment).	No express communication concerning the specific features of the function of cooperatives. The following message is provided in the definition of the KZBS mandate: “ ...int ent to promote a positive and modern view of the cooperative bank sector in Poland”	Does not concern the general public	

	Management Board and an Audit Committee		(www.kzbs.org)		
<b>Bank Polskiej Spoldzielczosci SA (BPS), Poland</b>	Limited company, association of regional banks, cooperative banks own the majority of the shareholding structure (87.3%)	Involves and supports the cooperative banks; since 2000 (Act of 7/12), removal of the obligation to comply with the “1 person, 1 vote” principle which is seen as restricting the bank’s intent to become actively involved in the associative movement (source: “Cooperative banks in Poland”, study published in March 2006 by the Banking Supervision Committee of the National Bank of Poland); no reference is made in the 2006 AR concerning the implementation (or lack of implementation) of this rule	The annual report does not make any reference to the membership system but contains a reminder of the “familial cooperative traditions” (introduction of the 2006 AR, p. 15) as a functioning base. Reliance on the bank’s role as an association.		
<b>Gospodarczy Bank Wielkopolski SA (GBW), Poland</b>	Limited company, association of regional banks: no information on the share ownership structure	Involves and supports the cooperative banks; since 2000 (Act of 7/12), removal of the obligation to comply with the “1 person, 1 vote” principle which is seen as restricting the bank’s intent to become actively involved in the associative movement (source: “Cooperative banks in Poland”, study published in March 2006 by the Banking Supervision Committee of the National Bank of Poland); no reference is made in the 2006 AR concerning the implementation (or lack of implementation) of this rule	same	same	
<b>Mazowiecki Bank regionalny SA (MBR)</b>	Limited company, association of regional banks: no information on the share ownership structure	Involves and supports the cooperative banks; since 2000 (Act of 7/12), removal of the obligation to comply with the “1 person, 1 vote” principle which is seen as restricting the bank’s intent to become actively involved in the associative movement (source: “Cooperative banks in Poland”, study published in March 2006 by	AR not available; no information on the <a href="http://www.mrbank.com.pl">www.mrbank.com.pl</a> website	same	

		the Banking Supervision Committee of the National Bank of Poland); no reference is made in the 2006 AR concerning the implementation (or lack of implementation) of this rule			
<b>Krakowski Bank Spoldzielczy</b>	Independent cooperative bank	This cooperative bank clearly states its identity and refers to its history (source: <a href="http://www.kbsbank.com.pl">www.kbsbank.com.pl</a> ; AR not available). No communication concerning the specific features of the membership system.	Emphasizes its history as a cooperative and mutualist bank. No communication concerning the specific features of the membership system.	same	
<b>Central cooperative bank, Bulgaria</b>	Is no longer a cooperative bank. Was initially created in order to help cooperative banks grow. Engaged in direct banking operations. In 2006, become wholly owned by a banking and chemical holding company	<p>The cooperative structure belongs to its 1.5 million members (p. 1).</p> <p>The Board of each local bank is comprised of elected members; the day-to-day management is entrusted to an elected officer (2006AR, p.65).</p> <p>This document explains the functioning of cooperatives through the various representation modes; the general meeting of delegates is comprised of representatives of the regional meetings bringing together elected members (2006 AR, p. 83).</p> <p>This meeting is comprised of several committees and is in charge of various issues. This meeting is in charge of the general functioning and operating rules, in particular as regards governance.</p> <p>The general meeting is comprised of representatives of the local banks (2006 AR, p. 64).</p>	Highly developed role, intent to give a greater place to members in the enterprise's local programs, in view of the stated cooperative principles, which should increasingly come into play in the future.	<p>Wish to increase the involvement of members in the cooperatives: creation of boards of members which are functioning at present (AR 2006, p.6).</p> <p>Commitment also at the level of the local community. Rabobank has become known for its "cooperative dividend" which is the economic and social value added by the enterprise to a local territory.</p> <p>In line with the cooperative nature of the enterprise, Rabobank intends to have this "cooperative dividend" created by members at the local level (2006 AR, p. 83).</p> <p>Cooperative roots are the cornerstone of the management system of Rabobank, which is managed in accordance with cooperative principles (2006 AR, p. 17).</p> <p>The distinctive cooperative principle shall in future years be deepened and strengthened in terms of internal and external communication (AR, 2006, p. 17).</p>	

<p><b>Rabobank, Netherlands</b></p>		<p>The cooperative structure belongs to its 1.5 million members (p. 1).</p> <p>The Board of each local bank is comprised of elected members; the day-to-day management is entrusted to an elected officer (2006AR, p.65).</p> <p>This document explains the functioning of cooperatives through the various representation modes; the general meeting of delegates is comprised of representatives of the regional meetings bringing together elected members (2006 AR, p. 83).</p> <p>This meeting is comprised of several committees and is in charge of various issues. This meeting is in charge of the general functioning and operating rules, in particular as regards governance.</p> <p>The general meeting is comprised of representatives of the local banks (2006 AR, p. 64).</p>	<p>Highly developed role, intent to give a greater place to members in the enterprise's local programs, in view of the stated cooperative principles, which should increasingly come into play in the future.</p>	<p>Wish to increase the involvement of members in the cooperatives: creation of boards of members which are functioning at present (AR 2006, p.6).</p> <p>Commitment also at the level of the local community. Rabobank has become known for its "cooperative dividend" which is the economic and social value added by the enterprise to a local territory.</p> <p>In line with the cooperative nature of the enterprise, Rabobank intends to have this "cooperative dividend" created by members at the local level (2006 AR, p. 83).</p> <p>Cooperative roots are the cornerstone of the management system of Rabobank, which is managed in accordance with cooperative principles (2006 AR, p. 17).</p> <p>The distinctive cooperative principle shall in future years be deepened and strengthened in terms of internal and external communication (AR, 2006, p. 17).</p>	
<p><b>Raiffeisen Bank, Luxembourg</b></p>		<p>No communication in the annual report concerning the notions of member, cooperation, governance or democracy.</p>			
<p><b>Banques Populaires, France</b></p>		<p>The various messages concerning members are circulated and are relatively strong:</p>	<p>However, these reports might be clearer and more educational as regards the role of members in the</p>		

		<p>“members are not typical shareholders” (p. 45), “members are not driven by a profit-making logic aimed at maximising dividends”, “membership is a key factor of success” (p. 5), “orientation meetings are organised in order to make new customers aware” (p. 42), directors are elected by and among the members (p. 27) and the fact that banking groups are owned by members is clearly explained (p. 35).</p>	<p>democratic process. General meetings are events that should be given a greater place when the role of members is explained (p. 42) and the role of members could be explained more directly (p. 27...obscured in the middle of a highly technical statement), their decision-making role in the governance process might be better explained, and reference is made to a form of compensation with multiple local initiatives (p. 41).</p>		
<b>Crédit Agricole, France</b>		<p>With its 5.6 million members and on average one director per township, Crédit Agricole is strongly rooted at local level in order to contribute to the dynamism of the regions. (AR CASA, 2006 p. 84)</p>	<p>No specific cooperative feature, no reference to the members. The report studied here is prepared by CASA, and not by the central cooperative organisation. The cooperative specificity disappears.</p>		
<b>Crédit Coopératif, France</b>		<p>Highly technical presentation in “legalese” language. Clear, but rather austere, presentation: “voting rights are held by members owning A shares in accordance with the ‘one person, one vote’ cooperative principle” (AR 2006, p. 16)</p>		<p>Ambitions of working on group governance: “launch of a new 2007-2009 action plan covering cooperative governance, the involvement of employees, the membership system, social responsibility and the protection of the environment” (AR 2006, p. 107).</p>	
<b>Crédit Mutuel,</b>		<p>“The Board of directors and/or supervisory board include 24,000</p>			<p>The report remains relatively descriptive</p>

<p><b>France</b></p>		<p>non-compensated directors elected by 6.9 million members, who are at the same time members and clients of the cooperative” (AR 2006, p. 5).</p> <p>“Crédit Mutuel belongs only to its members who own an A interest share. This enables each member to express his views according to the ‘one person, one vote’ principle and in particular to become a director” (AR 2006, p. 12).</p> <p>20,000 meetings and 2,000 general meetings (with a participation rates equal to 10% of the members) bear testimony to the existence of a genuinely democratic corporate governance (AR 2006, p. 13).</p> <p>General meetings are the basic bodies or internal democracy within Crédit Mutuel. Each year, members and clients of the local bank are asked to meet with directors and employees (...). Such meetings mark the difference between Crédit Mutuel and other banks (AR 2006, p. 19).</p>			<p>and creates a distance with cooperative reality. Messages are not targeted at members, but at the general public and give the impression of being mere snapshots.</p>
----------------------	--	---	--	--	--