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# The Impact Of The Multi-Stakeholders Governance On The Performance Of Cooperative Banks: Evidence Of European Cooperative Banks

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## Abstract

Compared with the commercial banks, cooperative banks remained relatively unscathed during the 2007's crisis. In this paper, we look for possible explanations as to their first-rate performance. To this end, we analyze the past and present indicators of the cooperative system, particularly in terms of internal governance's mechanism. Our sample is composed of a number of European banks which has attempted to study the presence of an impact, affected by the new governance of cooperative banks, on their performance. It has been revealed that, differing to previous research; members of the cooperative banks have a negative impact on performance. However, our study showed that the law of membership may be the fundamental cause for its performance.

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## 1. Introduction

It is little known in the literature about competition and performance of small regional credit institutions in economic development, given the variety of local structures. However, cooperative banks along with the commitment of their members have influenced the regional and local growth particularly in the period of the

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financial crisis 2007. These banks along with their 56million members, 4,000 member banks 72,000 branches, over 850,000 employees and 181 million customers (EACB, 2012 p.4) were able to promote local development and entrepreneurship. By adhering to the social and solidarity economy (SSE), these banks were able to distinguish themselves from conventional banks. This distinction mostly presents itself in the fact that cooperative banks' owners, who are also their customers, can be a part in the cooperation. For that, members cannot accumulate votes by purchasing shares on the market. Seeing that cooperative banks cling to the principle of one member one vote regardless of the amount of capital retained; yet, this principle depends on the capacity and the size of the banking system. Furthermore, this stakeholders' structure is more effective in term of governance comparing to the other banks. Its efficacy displays itself in the insolvency risk reduction and customers satisfaction guarantee (EACB, 2012).

The previous literature surrounding cooperative banks have focused on their risk of default (Fiordelisi and Mare, 2013), their performance and stability, especially during the financial crisis (Groeneveld and De Vries, 2009), (Fiordelisi and Salvatore, 2014), the fragility of cooperative banks compared to commercial banks ( Hesse and Cihák ,2007), for that banks are more stable and creditworthy because they are controlled by the population. In this context ,Groeneveld (2012)<sup>†</sup> empirically proved that the number of members has continued to increase on the financial and economic plans along with the population's booming during and after the financial crisis of 2007. However, for other researchers the size seems to be an obstacle to their development and positively related to systemic risk (Vallasas and Keasey, 2012 De Jonghe, 2010). At this point, the majority of cooperative banks are small rural credit institutions. Therefore they are more fragile to be exposed to financial crises. Nevertheless, we believe that the behavior of these stakeholders internal governance could be the key to their performance. Specifically, although the profitability of cooperative banks is less volatile than the commercial banks in times of crisis are, however, knowledge is an advantage to their performance.

The specificity of the Multi-Stakeholders governance of cooperative banks can be a differentiator from other banks. Indeed, membership is one of the main distinguishing traits of cooperative banks and it can be said that it's the foundation of such institution. If all the members have an equal right to vote at the General Assembly of the cooperative, their influence would be major since according to the social and participatory democratic values they exercise control at each level. It is the act of involving their employees, their customers in the operation, management and governance of their inspiration in the economic and social development. Suffice to say that cooperative banks are characterized by a mode of governance "multi-stakeholders". It is a mode of governance that takes into account the views of the various human resources that are part of the banking business, such as customers, shareholders, the employees (Groeneveld and Llewellyn, 2011). In this context, some financial numbers believe that this mode of governance can only be beneficial to the growth of cooperative banks. Specifically, in a commercial bank, the shareholder withdraws when there is a difficulty, as his shares are no longer sufficiently profitable. By cons, when a cooperative company faces a problem, members are more supportive and try to solve it together. Given their involvement in the bank's governance, customers are more motivated to effectively contribute to their business well-being. Yet such partnership and democratic foundation can create discord among stakeholders (Hill and Jones, 1992). They pointed out that this character can produce a divergence of interests between the different categories of stakeholders and hence, their dissolution. However, these banks considered weak in comparison with other banks survived the crisis and were able to reach large portions of their target market.

Debating whether the cooperative banks are more efficient than commercial banks<sup>‡</sup> or not, this article analyzes the importance of Multi-Stakeholder governance on the performance of cooperative banks. Recent studies have

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<sup>†</sup> Graphic made by Groeneveld (2012) in his article "The Cooperative Banking Model: Performance and Opportunities" Working Paper Rabobank Nederland, Utrecht, the Netherlands. According to the annual reports of cooperative banks and national demographic statistics between 1996 and 2010

<sup>‡</sup> The purpose of this article is not a comparison between the cooperative banks and commercial banks, this has already been analyzed in the articles of (Fiordelisi and Salvatore,2014),( Fu Lin and Molyneux,2014)

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