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ORIGINAL ARTICLE

Reconciling different truths about isomorphic pressure and distinctive behavior at European cooperative banks: Back to the future with Raiffeisen's principles

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Abstract

This article employs a new approach to address a key question in an expanding literature on European cooperative banks: are they still distinctive and sources of social innovation or did they suffer from organizational isomorphism throughout their history? First, we go back to the time when Friedrich Wilhelm Raiffeisen (1818–1888) formulated his principles for the forerunners of many contemporary cooperative banks. Subsequently, we identify areas where major adaptations to the archetypical model of cooperative banks have taken place or are still taking place today. We integrate a detailed explanation of the backgrounds and motivations of these steps with an analysis of isomorphic consequences and loss of distinctiveness that have allegedly emanated from these adjustments. Against the latter common opinion, we place an equally well-founded dissenting view and formulate recommendations to stay on or return to the cooperative track. Thus, we reconcile conflicting assessments in scientific publications and present a balanced view on the current peculiarity of cooperative banks, substantiated by up-to-date figures.

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With the economic disruption caused by the coronavirus outbreak, we argue that, now more than ever, cooperative banks could demonstrate their solidarity, long-term orientation and local anchoring—namely bringing Raiffeisen's principles back to the future.

KEYWORDS
cooperative banks, F.W. Raiffeisen, governance, isomorphism, regulation, social economy

JEL CLASSIFICATION
B31, G21, L20, O35, P13, Q18

1 | INTRODUCTION

2020 will go down in history as the year of the global health and economic crisis due to the coronavirus outbreak. Although it is far too early to assess its global long-term social and economic impact, it is conceivable that globalism could weaken in favor of localism (IMF, 2020). In that case, people will become more dependent on the local context for meeting their economic needs. It is, of course, tendentious to draw parallels with the Great Financial Crisis (abbreviated as GFC) of 2007/8, but then it was concluded retrospectively that so-called social enterprises, including cooperative firms, were less affected and more resilient than enterprises with other ownership structures. This was largely attributed to their local, not profit-maximizing orientation (Birchall & Hammond Ketilson, 2009; Michie, Blasi, & Borgaza, 2017). This observation in turn sparked policy attention for the social economy in the European Union (European Parliament, 2009). Therefore, cynically speaking, the timing of this special issue could not have been better.

This article puts the spotlight on a large subcategory of social enterprises: European cooperative banks (e.g., Boscia, Carretta, & Schwizer, 2010; Mooij & Boonstra, 2012). Most of them are established in the 19th century in continental Europe and also weathered the GFC relatively well, which many observers ascribed to their distinctive cooperative nature resulting in a low risk profile and strong focus on the real economy (e.g., Ayadi, Llewellyn, Schmidt, Arbak, & de Groen, 2010; Butzbach & Von Mettenheim, 2014; Chiaramonte, Oriani, & Poli, 2015; Groeneveld & De Vries, 2009). The jury is obviously still out on whether cooperative banks (henceforth abbreviated as CBs) will withstand the corona crisis and its expected lasting effects relatively well compared to banks with other organizational structures this time.

However, the above question relates closely to the central theme of this special issue and touches on the core issue in the expanding literature on CBs: are they still distinctive and sources of social innovation or did they suffer from organizational isomorphism throughout their rich and long history? This paper explores the latter question with a new and all-encompassing approach, thus extending the existing literature in several respects. As a first novelty, we go back in history to synthesize the notions of Friedrich Wilhelm Raiffeisen (1818–1888), the creator of agricultural and credit cooperatives, into seven interconnected founding principles of the majority of contemporary CB groups (Aschhoff, 1982; Fairbairn, 2017; Raiffeisen, 1866). The second innovative aspect concerns the extraction of seven interrelated domains where major adaptations to the archetypical model of CBs have taken place or are still taking place today from many recent sources (see

reference list, but also annual reports and canons of individual CBs). As an additional new element, we integrate a detailed explanation of the backgrounds and motivations of these steps with an analysis of the isomorphic consequences, loss of distinctiveness and of social innovativeness that, according to many observers, have emanated from these adjustments (e.g., Bonin, 2012; Brazda, Blisse, & Schedwy, 2016; Goglio & Catturani, 2018; Ory & Lemzeri, 2014; Richez-Battesti & Leseul, 2016). Against the latter common opinion, we place a dissenting view based on theoretical, empirical and practical considerations (e.g., Birchall, 2017; Butzbach & Von Mettenheim, 2014). We argue that CBs did relax the adherence to a number of Raiffeisen's original principles over the years, but did not completely abandon them. Hence, we reconcile conflicting assessments in scientific publications and present a balanced view on the distinctiveness and degree of hybridization of the collective CB sector by applying a broad and holistic perspective compared to most other studies. For example, the latter usually only concentrate on one CB group (i.e., case study; e.g., Karafolas, 2016; Mooij & Boonstra, 2012), examine one particular facet, for instance governance (e.g., Lamarque, 2018) or financial performance (e.g., Becchetti, Ciciretti, & Paolantonio, 2016), or refrain from an assessment of the underlying historical and contemporary forces and trends of the identified transformations (e.g., Puusa, Mönkkönen, & Varis, 2013). By collecting many valuable puzzle pieces from numerous documents, we are able to put the puzzle of the whole CB sector together and to formulate recommendations to stay on or return to the cooperative track.

The paper is divided into seven sections. Section 2 reiterates Raiffeisen's beliefs and solutions to end the misery and alienation of the rural population in 19th-century Germany. This section also points out that trending policy and academic discussions and publications on social innovation, social capital and the social economy echo his principles. In Section 3, we identify commonalities in the organizational and governance evolution of CBs based on a scrutiny of the literature and narrative case studies. Section 4 offers a synthesis of isomorphic and alienating effects of historical and ongoing adaptations from the literature. Section 5 complements the latter findings from two different dimensions. We will first explore whether CBs still objectively deviate from banks with other ownership structures (and vice versa) in terms of (financial) performance and banking behavior based on the latest research and up-to-date figures. The second part contains a concise anthology of analytical insights and some practical examples refuting the unavoidable loss of cooperative identity. Section 6 provides ample suggestions for further research. The article concludes with final remarks and some contemplations drawn from our findings.

2 | THE DURABILITY OF RAIFFEISEN'S IDEAS

The story starts with the agricultural depression in Germany in the 1850s. As a local mayor in a poor region close to Koblenz, F. W. Raiffeisen provided emergency food aid to impoverished and hungry farmers and their families in conformity with the social Christian inclination. He soon concluded that philanthropy and charity were not effective and not self-sustaining. It does not stimulate people to take control of their own destiny (Aschhoff, 1982). "Free" external help to (members of) food and agricultural cooperatives should only be based on a translated motto from the Bible: "*So jemand nicht will arbeiten, der soll auch nicht essen*" ("If a man will not work, he shall not eat"; Raiffeisen, 1866). The trilogy of self-help, self-responsibility and self-administration became his adage for individual farmers.

These three values constituted the backbone of a jointly owned firm by these farmers; an agricultural cooperative. Raiffeisen did not invent the cooperative model, since it already existed in the middle Ages in the form of commons and guilds (Bruni & Zamagni, 2007). Instead, he revived

and modernized cooperation as a timely and viable model to improve the well-being of the rural population that mostly farmed on small plots and had no bargaining power due to small production quantities. He understood that those who needed these cooperatives most to improve their standard of living and wellbeing, had usually the least resources and capabilities to establish, maintain and manage one. Hence, the participation and involvement of all classes in society, namely small and large farmers, local notables and elites, were warranted (Grosskopf, Münkner, & Ringle, 2010). In his view, agricultural cooperatives served multiple objectives. They would not just bring about economic benefits for individual farmers, but would also amplify their ability of what was more than a century later labelled as "collective action" (Ostrom, 1990) and sustain a kind of rural social order. Put differently, cooperatives were business organizations to strengthen and (re)invigorate local communities.

It is to the great credit of Raiffeisen that he used agricultural cooperatives as instruments to reduce the credit crunch in the rural environment. At that time, existing banks hardly served farmers and/or charged extremely high interest rates for loans to the rural sector (Guinnane, 2001). Most farmers had little or no access to financial services to obtain loans or put their savings. Affordable financial services were key for farmers to modernize their production methods and gain access to markets for their products (Cornée, Fattobene, & Migliorelli, 2018). Both aspects would ameliorate the living conditions of the rural population considerably. To break the negative spiral of worsening life conditions, the rural sector should only rely on financial resources, which were available within the system. In 1864, Raiffeisen established his first rural credit cooperative (later renamed as cooperative bank) and formulated an own set of principles (Raiffeisen, 1866). Many other European countries soon replicated cooperatives established in the Raiffeisen tradition. National cooperative champions encouraged farmers to establish farmers' unions and to set up agricultural and credit cooperatives to feed their existential needs.[1] We have compressed Raiffeisen's detailed views for credit cooperatives into seven interconnected principles in Table 1.

Important elements of Raiffeisen's principles have lost little of their validity and topicality, as they have recently resurfaced in many academic articles and European policy documents on social innovation (e.g., Borzaga & Bodini, 2014; Bouchard, 2013; European Commission, 2015), social capital (Putnam, 2000) and social enterprises (e.g., Borzaga & Defourny, 2001; European Commission, 2014; European Parliament, 2009) in the social economy. In retrospect, many scientists and policy makers now qualify Raiffeisen as a "social innovator": he found a solution to a social problem, and society as a whole was the main beneficiary (Fairbairn, 2017). On the one hand, Raiffeisen worked in many ways within existing social institutions. At the same time, he created new forms of action and organization, labelled as social innovations more than a century later. Credit cooperatives were set up to correct market failures, namely financial exclusion, and to overcome the associated problems of asymmetric information in favor of the rural population, in particular farmers, and small businesses (Aschhoff, 1982). Finally, the notion of social enterprises, including cooperatives, currently enjoys considerable political attention as research and data revealed their steady growth rate throughout the latest fierce business cycles (Birchall & Hammond Ketilson, 2009; Michie et al., 2017).

[1] It is fair to say that another German social reformer, Franz Hermann Schulze-Delitzsch (1808–1883), invented a similar type of credit cooperative for townspeople called popular banks (Volksbanken in German). The latter provided credits to enable artisans and small business people to come through turbulent economic times and frequent depressions that accompanied the industrial revolution. Aschhoff (1982) describes the original ideological and practical contrasts between these two German men. It appears that these differences have gradually vanished over time. In Germany, the Volksbanken and Raiffeisenbanken merged in 1972 under one umbrella institution, the National Association of German Cooperative Banks (BVR).

TABLE 1 Raiffeisen's core principles for credit cooperatives (CCs)

RFP#	Principle	Explanation and implementation
RFP 1	Solidarity and democratic governance	Rich and poor people—in the respective guises of savers and borrowers—cooperate within a CC. This way, social solidarity is put into practice. Unlimited liability for all debts is sustained by all members of the CC ("one for all, all for one" principle). Members provide funding (savings) or stand bail and are therefore involved in the decision-making and credit granting process. There are clear financial incentives for members to monitor each other. Ownership is equally divided between all members based on the principle of "one member, one vote".
RFP 2	Long-term horizon and relationships	Granted loans have a long-term maturity and seal a long-term relationship with members. This represents faith in the repayment capacity of the debtor, focus on longevity and the intimate relationship between farmers and the land they cultivate. CCs only provide loans to farmer-members against normal market interest rates (i.e., "non-usurious" rates).
RFP 3	Thrifty and prudent management	CCs are run by a cashier in his home office, who is either unpaid or only receives a small salary. His tasks comprise receiving and distributing the funds as well as bookkeeping and correspondence. The cashier's job is a part-time occupation. The elected Board governs the CC for the noble cause of it, without any remuneration. CCs should be economical in all other respects and not incur any unnecessary costs. Within small communities, relatively intimate knowledge of each other's credit and trustworthiness guarantee that only borrowers can obtain loans who can repay them. As a result, CCs pursue a low risk-taking approach.
RFP 4	Locality	The working area of a CC is confined to the local community, village or parish. Knowledge of the credit-worthiness of one's neighbor and member's agricultural expertise means that loans are safe and that it is primarily about relationship banking *avant la lettre*. The homogeneous membership base in the local society also implies peer pressure to repay.
RFP 5	Cooperative secondary structure (APEX)	Regional cooperative organizations and federations assist and serve grassroots (F&A or credit) cooperatives. An umbrella organization yields advantages for the members of primary cooperatives by helping to mitigate high transaction costs. The regional centrals play an important role in advising, consulting, monitoring, auditing and educating (members and personnel of) CCs.

(Continues)

TABLE 1 (Continued)

RFP#	Principle	Explanation and implementation
RFP 6	Internal capital generation (via retained surpluses)	Members finance and are fully liable for the CCs. CCs do not seek short-term profit maximalization, but profits are necessary for further growth and the main source of capital generation (which is considered as intergenerational resource). The largest part of annual surpluses is retained. Internal capital building acts an insurance against the eventuality of having to appeal to members' liability. Based on negative experiences, reliance on external capital is out of the question. CCs are not permitted to re-distribute any surpluses to the members. This also means that members have no claim on the net assets build up over the years.
RFP 7	Economic goals and social effects	Above all, CCs have an entrepreneurial focus, not a charitable one. However, they may, directly or indirectly, also serve social and cultural purposes if they generate sufficient surpluses. A responsible part of the surplus must be appropriated for social and charitable purposes, in order to improve local living conditions. CCs are committed to promote the development of communities where they are situated. This mirrors responsible stewardship and a dual bottom line orientation.

Note: Author's interpretation and elaboration. RFP stands for Raiffeisen's Principle and # denotes the number of the principle in the list. CC means credit cooperative. Many of these principles also applied to the associated rural cooperatives.

3 | COMMUNALITIES IN THE GOVERNANCE AND ORGANIZATIONAL EVOLUTION OF COOPERATIVE BANKS

The legacy of Raiffeisen is very much alive in European banking today. Five contemporary European CBs still bear his name and at least seven other CB groups were inspired by his ideas, but logically founded by national charismatic individuals (e.g., Karafolas, 2016).[2] The member-based governance founded on democratic principles (e.g., one member, one vote) and on mutualism is their deciding common timeless characteristic (see EACB, 2007; Oliver Wyman, 2014). Counted from the establishment of the respective first credit cooperative, the average age of these 12 CB groups is more than 100 years. However, imitations of Raiffeisen's model did not succeed in every European country. Raiffeisenism disappeared in Belgium, Ireland, and Sweden, and never even got off the ground in Denmark (Colvin & McLaughlin, 2014; Körnert, 2012).

The longevity of the remaining CB groups signifies their adaptability and resilience to changing circumstances and challenges. However, the key topic in the literature is whether CBs have

[2] Cooperative banking groups rooted in the Raiffeisen tradition are: Austrian Raiffeisenbanks; Confédération du Crédit Mutuel in France; the German cooperative financial group encompassing Volksbanks and Raiffeisenbanks; Federazione Italiana delle Banche di Credito Co-operativo-Casse Rurali ed Artigiane in Italy; Banque Raiffeisen in Luxembourg; Rabobank in the Netherlands; Raiffeisen Schweiz; Federação Nacional das Caixas de Crédito Agricola Mútuo in Portugal. The other major European cooperative banking groups are: Austrian Volksbanken Group; Unión Nacional de Cooperativas de Crédito and Banco de Crédito Co-operativo in Spain; Nykredit in Denmark; Crédit Agricole Group and BPCE in France; OP Financial Group in Finland; BPS Group and SGB Group in Poland.

succeeded in remaining both distinctive and sources of social innovation in banking or have been subject to organizational isomorphism during their evolution. An adequate and accurate analysis of this issue requires a number of successive steps. The first phase concerns the identification of common organizational and governance adaptations of CBs. This necessitates scrutinizing literature and narrative case studies, because CBs differ in many respects from each other (i.e., "commonality with diversity"; Ayadi et al., 2010) and (had to) operate in different competitive, political, geographical, fiscal, legal and regulatory contexts.

To the best of our knowledge, we have filtered seven interrelated areas from many recent sources (see reference list, but also annual reports and canons of individual CBs) where major adaptations to the archetypical model of CBs, as outlined in Section 2, have taken place or are still taking place today. Table 2 summarizes our generalizations.

The explanatory text in the column "assessment" allows for two observations. First, CBs have relaxed the adherence to a number of Raiffeisen's original principles over the years, but have not completely abandoned them, as will be further elaborated in Sections 4 and 5. Secondly, it appears that three clusters of interrelated driving forces underlie the set of adaptations. Own internal strategic (re)considerations constitute the first category. Real or expected external opportunities and challenges were sometimes at the root of these endogenous steps. The external or exogenous drivers for adjustments fall into two main groups. One pertains to a wide range of social, demographic, technological, economic and competitive trends. The other external category has a primarily policy-related background: banking supervision and regulation.

In the light of the discussion about isomorphic pressures (DiMaggio & Powell, 1983) at CBs, we would like to make two comments. First, historical and ongoing adaptations mirror CBs' voluntary or enforced reactions to exogenous developments. Some external trends or political interference (e.g., Cabo & Rebelo, 2016) have compelled CBs to take paths that they did not prefer from a cooperative perspective, namely they sometimes had to opt for suboptimal options because their future sustainability as a cooperative might otherwise be at stake (i.e., mimetic or coercive isomorphism). Conversely, CBs may have taken pre-emptive or reactive strategic measures that actually impinged on cooperative norms and values but accorded with the strategies and behavior of other types of banks (i.e. normative or mimetic isomorphism). Contrary to some studies (e.g., Goglio & Catturani, 2018), we believe that it is impossible to indicate exactly which factor is or has been dominant in every single case. The second observation is that both types of external trends have also given rise to all kinds of fundamental changes at all the other banks. The question is whether their strategic responses to the same external developments reflect their own free choices or not. If not, coercive isomorphism could have led to a two-way homogenization of banks with different ownership structures (Kalmi, 2017). CBs and commercial banks would then increasingly resemble each other in terms of business model, norms and values.

4 | A SYNTHESIS OF THE ISOMORPHIC EFFECTS OF HISTORICAL AND ONGOING ADAPTATIONS FROM THE LITERATURE

The academic interest and literature on the CB model was relatively thin up to 15 years ago, as opposed to that on for-profit banks (Kalmi, 2007). As a corollary, the attention for the implications of CBs' departure from their founding principles does not go far back in time as well. Many recent studies now emphasize the alienating consequences of remarkable modifications, which have actually been going on for a very long time. Illustrative is the continuously declining local presence (AD 1), which commenced in the 1950s. A huge body of literature now purports that the

TABLE 2 Common denominators in the evolution of cooperative banks

#	Adaptation	Assessment
AD 1	Initial creation and subsequent consolidation of local banks	The period 1920–1950 recorded the highest growth and number of CBs. Thereafter, CBs began to serve larger working areas and started to merge to achieve better economic viability. Around the 1960s, electronic payment systems emerged which triggered another wave of consolidation among local banks to bear the costs of the associated large investments. A few decades after, larger scale was necessary in order to remain able to serve expanding firms from a risk perspective. An ever-increasing size also made it possible to create profitable teams of specialists who served customers with increasingly complex (international) financial needs. In this millennium, digitization and virtualization of financial services exert a major impact on locally anchored CBs. The customer interface is continuously changing, necessitating the transition to the new online world to remain in business. Finally, increasing regulatory burdens prompted local CBs to merge in recent years. Consequently, the number of mergers has accelerated since 2000 and this trend is likely to continue.
AD 2	Declining relative emphasis on agricultural sector	The close ties with agricultural cooperatives of the first decades gradually loosened. Around the 1950s, agricultural cooperatives and credit cooperatives were decoupled. From historical records, we could not exactly figure out why and when this detachment has occurred. Plausible explanations are the introduction of regulatory frameworks for banks, the unfolding of a common agricultural policy in Europe in the post-World War II era and urbanization as result of population growth. Said that, CBs are still the largest financiers of the European F&A sector today and farmers are still well represented on many CB Boards.
AD 3	Servicing an increasingly diverse member base and large volumes of non-members with a broadening product portfolio	At different points in time, CCs began to service other client groups, opened up membership for non-agricultural customers and private individuals, abolished compulsory membership for customers applying for a credit and broadened their product range. In harmony with this, unlimited member liability changed to limited or even excluded liability. The dwindling share of the agriculture sector in the total economy, increasing competition in banking, growth of mortgage lending, and successive technological advances, etcetera, triggered this category of comprehensive and perpetual adaptations.
AD 4	Fluctuating scope and scale of activities beyond cooperative core	In line with AD 3, most CBs embarked on financial activities outside the cooperative core (e.g., leasing, insurance, asset management) and some expanded internationally. Internal strategic reorientations (e.g., following internationalizing customers abroad) initially prompted and various waves of deregulation and liberalization of the global financial sector facilitated these expansionary steps. The centrals normally manage these types of activities. In quite some instances, additional capital market funding—beyond the placed deposits by (non-)members—was needed to finance the growth ambitions. Since the Great Financial Crisis, cooperative banking groups have particularly scaled down their international businesses (as many other retail banks).

(Continues)

TABLE 2 (Continued)

#	Adaptation	Assessment
AD 5	Tighter integration and expanding mandates of central body	Some cooperative banking groups were structured into networks from the outset, whereas other groups were originally more loosely organized. The centrals of the former were typically in charge of marketing, lobbying, educating members and their representatives, and the realization of economies of scale and scope. In most instances, cooperative centrals managed the liquidity within the system, investing the surplus in the interbank markets, and borrowing in case of deficit (e.g., banker's bank). The central organizations gained more influence over time, largely due to the increase of non-traditional activities, increasing, but still relatively limited reliance on wholesale funding (issued by the centrals) and the actions of regulators and rating agencies. This has resulted in convergence towards higher levels of integration across CB groups, a shift of power and decision-making mandates to the centrals (notably in recent years).
AD 6	Introduction and strengthening of internal solidarity mechanisms and supervision	Some groups were originally and some still are organized in the form of a network. At some point, local CBs set up institutional protection schemes (IPS) to safeguard customers' deposits before national deposit guarantee schemes were founded. Some local banks took additional integrative steps by establishing joint liability frameworks, like cross guarantee schemes, and evolved into centralized groups. The centrals usually run these schemes and exercise supervision over member banks. The institutional arrangements promote financial stability and necessitate a varying degree of cooperation and integration between local banks and the central institution. The resulting soundness induced rating agencies to award cooperative banking groups with relatively high credit ratings (if any). Today, institutional arrangements are in place in almost every cooperative banking group.
AD 7	Continuous adjustments in local/regional and central governance	It follows logically from the previous key adjustments that CBs have had to align their local/central governance with these changes constantly. An additional driver was the increasing substance of external banking regulation and supervision since the establishment of the first credit cooperatives. The scope and depth of external supervision and regulation widened in tandem with the increasing sophistication and importance of the financial sector for national economies over time. The resulting and successive changes in regulatory and supervisory frameworks left their marks on the organization, governance and business model. For instance, ever-stricter external governance guidelines led to changes in the required skills and competences of Board Members of local CBs, risk management was professionalized, and enhanced capital, liquidity and informational requirements became more binding for decisions at the local and central level. Recently, the creation of the European Banking Union meant a fundamental game changer for CBs.

Note: Author's elaboration. AD stands for adaptation and # denotes the number of the adaptation in the table. The impact of the adaptations varies across CBs.

dilution of the original locality principle is detrimental for the social innovativeness and distinctiveness of CBs from three main perspectives (e.g., Boscia et al., 2010; Poli, 2019). First, the erosion of territorial proximity is impoverishing local social networks and 'social capital' (Jones & Kalmi, 2012). Second, consolidation and integration have led to larger, more centralized CBs and more hierarchical decision-making processes (Cuevas & Fischer, 2006). The CB groups increasingly relied on arm's length transactions with their customers and took 'soft' facts to a lesser extent into account in their loan approval decisions (Goglio & Catturani, 2018). They allegedly moved from a relationship lending methodology towards a transaction lending methodology,[3] which is inherently more in vogue with commercial banks (Cornée, 2014). Third, the ongoing network consolidation reduces the total number of active member representatives in the internal governance (e.g., Goglio & Kalmi, 2017). A declining number of member representatives determines the strategic course and disciplines sophisticated professional management.

With hindsight, the literature implicitly acknowledges that the seeds of other isomorphic pressures observed at CBs today were planted in the 1950s–1960s when the ties with the agricultural sector became increasingly loose (AD 2). Around that time, many European countries transformed from an agricultural economy to an industrial and service-oriented economy and from a cash economy to a giro-based payment system. In the face of urbanization, many CBs opened up membership to other customer groups and made their services available to non-members in emerging economic sectors as well, mainly for reasons of self-preservation (AD 3; e.g., Mooij, 2012). It is now widely contended that the weakening of the common bond with the agricultural founders, the broadening and expansion of the member base complicated the functioning of the governance and created organizational tension (AD 7; Höhler & Kühl, 2017). It takes more effort to balance the interests of a heterogeneous and extensive membership base. Servicing non-members may even threaten CB's autonomy, because the possible misalignment between the values and incentives of client-members and those of independent customers could alter the prudent and long-term vision of their businesses (Spear, 2004). Some argue that the consequences of serving many non-members could be severely aggravated when members themselves would start to exhibit free-rider behavior or no longer see the benefits of being a member (Van Dijk, Sergaki, & Baourakis, 2019).

CBs also originally grounded their *raison d'être* in providing access to affordable financial services to farmers, but Goglio and Caturrani (2018) state that this mission was largely accomplished by the 1960s. Reliance on members for deposit funding and equity was also steadily decreasing, because CBs attracted savings and deposits from a rapidly expanding non-member base (AD 3). Furthermore, CBs had built up a solid internal equity buffer. For decades, they had not distributed the surpluses among members, but set aside a considerable portion of profits to meet future losses, lower the cost of lending, and increase the return on deposits (Cornée et al., 2018). At the same time, the introduction or further expansion of internal institutional arrangements (AD 6), whether or not enforced by external regulators (AD 7; Lamarque, 2018), reduced members' potential losses. Coinciding with these developments, the solidarity-based full liability was gradually limited or sometimes even completely abolished (Vogelaar, 2012).[4] Detractors have only recently postulated that these developments have weakened members' incentives to monitor and discipline professional managers, although limited personal liability has been a fact for over half a century.

The literature also devotes a great deal of attention to the estranging impact of expanding domestic and international activities of CBs over the last three decades (AD 4). Canons and

[3] For instance, financial statement lending, asset-based lending and small business credit scoring.

[4] For some CB groups, members are nowadays only liable for the amount they have subscribed.

historiographies tell that CBs launched activities beyond retail banking under the sway of several waves of external competitive environmental developments such as financial liberalization, globalization (e.g., Bretos & Marcuello, 2017; Körnert, 2012) and IT innovations a long time ago. Some CB groups established sizeable activities outside the cooperative part, e.g. corporate projects, investment and international banking activities, acquisitions or mergers with insurance and leasing companies in the 1980s–1990s (Bonin, 2012; Groeneveld, 2015). Central institutions generally manage these activities, which tend to be more volatile and risky than local retail banking (see various case studies in Mooij & Boonstra, 2012). If the central grows very large and starts to undertake extensive banking activities (via domestic or international subsidiaries), it can represent a risk for the entire group. The banking professionals could start pursuing other objectives as the monitoring power of member representatives weakens due to growing information asymmetries (Fulton & Hueth, 2009). Some authors maintain that integrated networks (i.e., AD 5) produce a high level of trivialisation of the mutualism form (e.g., Richez-Battesti & Leseul, 2016).

CBs have been engaged in fierce competition with domestic for-profit banks since the 1960s. In essence, they have been offering the same range of financial services for decades and their operational differences have diminished over time (Kalmi, 2017). In a number of cases, the growth of traditional funding sources (local savings and deposits) proved to be insufficient to finance the enlarged spectrum of national and international activities. Consequently, the central institutions of larger CBs started to tap funding from international capital markets and had to satisfy rating agency requirements to secure funding on favorable terms. Alexopoulos and Goglio (2009) claim that this hybridization[5] implied a relinquishment of the cooperative principle of purely self-financing (6th principle of Raiffeisen) and went hand in hand with additional reporting and transparency requirements, which impacted adversely on the governance and social character (Puusa et al., 2013). First, the introduction of external funding providers or investors reduces the governance autonomy of members and independence of CBs. Strategy and policy making of CB groups become more complicated, even though external capital providers may not have voting rights or just a minority stake in central institutions or subsidiaries. In the end, the reliance on external funding or equity could lead to an erosion of the cooperative profile and an estrangement between local CBs and the central institutions with its group subsidiaries. Most of the times, the profit targets of externally financed subsidiaries are higher than those for the CBs, but the risks involved are also higher (Boonstra, 2012). This bears the risk of divergent internal governance models or even conflicts of interest between local CBs and group entities, particularly because the latter usually do not have a cooperative organizational form and have a difficult business orientation than local CBs.

Already in the 1950s, the expanding size and complexity of local CBs necessitated the inclusion of professional bankers on the elected boards. Remunerated managers replaced the originally unsalaried and voluntary cashiers. This change influenced the working of the governance (AD 7) and sowed the seeds for information asymmetries and principal agency problems, namely potential conflicts of interest between managers and owners, as theorized many years later (Fama & Jensen, 1983). The continuously qualitative and quantitative reinforcement of professional management has purportedly weakened the democratic control by member representatives (Lamarque, 2018), who sometimes lacked the managerial and supervisory skills to preserve the health of CBs and to navigate them safely through changes in society. The formal ownership structure occasionally failed to oblige bank managers to carefully (re)assess what it means to be a

[5] Hybridization means that a CB has issued either equity shares or non-voting financial instruments to non-member investors.

CB at each particular stage of banking activity and regulation and to adjust their behavior according to the situation (Llewellyn, 2012). Ory and Lemzeri (2012) assert that this deficiency has led to opportunistic strategies, a misappropriation of cooperative funds, and misalignment between the corporate philosophy and needs and aspirations of members in a number of cases. Some CB banking groups learned that specialized operations or APEX activities entailed relatively high risks and were not inherently entrenched (e.g., Brazda et al., 2016; Kelly, 2014; Vogelaar, 2012).

A sizeable body of academic articles and policy documents (e.g., EACB, 2019; Migliorelli, 2018) concludes that the continuous adaptations mentioned under headings 1, 5, 6 and 7 can be partly linked to the substantial advance of external banking regulation and supervision, especially since the Great Financial Crisis 2007–08 (henceforth GFC). Obviously, the current regulatory context is incomparable to that in Raiffeisen's days, because the nature and scope of banking, technological applications and society have changed fundamentally over time.[6] Alessandrini, Frattiani, Papi, and Zazzaro (2016) stipulate that these developments will lead to a disproportionate administrative burden for smaller CBs, which will affect their ability to create sufficient surpluses for strengthening their capital base and could eventually endanger their viability, namely they will fall into a "too-small-to-comply" trap.[7] Increased compliance costs have necessitated a larger optimal size of local level cooperatives, which prompted mergers that would not have been optimal in situations of more neutral regulation (Ferri & Kalmi, 2014).

Eventually, ever-increasing regulatory requirements and compliance costs could confront CBs with a trade-off between retaining profits and economic goals on the one hand and displaying counter-cyclical behavior (Becchetti et al., 2016; Meriläinen, 2016) due to the use of a long-term perspective and financing local economies on the other (Cornée, 2014). For some observers, this may give rise to a phenomenon where regulatory principles run broadly counter to the natural orientation of CBs (e.g., Albert & Lamarque, 2016). Things would become even more complicated if CBs would start to resort to external equity to finance growth (i.e., cancellation of the sixth Raiffeisen principle) and/or accommodate credit demand, especially if external capital providers will obtain voting rights. This could limit the degree of freedom in their quest to aim at economic goals and social objectives simultaneously (i.e., the seventh principle of Raiffeisen) and might create conflicts between the interests of members and external investors.[8] Besides, the presence of external capital may obstruct free internal discussions about the desirable strategic course, because these deliberations could have immediate effects on the prices of issued capital and funding instruments.

In addition, financial authorities and financial organizations published new guidelines for risk management practices, risk governance and risk culture (e.g., Financial Stability Board, 2014), since errors in bank governance played an important role in explaining the bad performances

[6] The European Banking Union was established in 2013 to foster a stricter supervision of the risks related to banking operations, to improve financial stability, to strengthen consumer protection and to promote a level playing field. The laws and rules are embedded in four extensive documents: Capital Requirements Directive and Capital Requirement Regulation (CRD IV-CRR package), the Bank Recovery and Resolution Directive (BRRD) and the Deposit Guarantee Schemes Directive (DGSD). The European Central Bank has be assigned as banking supervisor as from November 2014 for systemically relevant banks in the Eurozone.

[7] The Annual Report 2019 of the European Association of Cooperative Banks provides an informative overview of the implications of eminent changes in supervisory and regulatory regimes for CBs.

[8] The forced transformation of ten Italian Banche Popolari into stock listed banks in 2016 is living proof of the risks outlined in the text. The main reason behind the government decree is that their governance structure had become rather opaque. These popular banks had external shareholders with limited voting rights as well as the 'one member, one vote' principle for members. Besides, these banks recorded poor financial results for several years.

of banks during the financial crisis (Diamond & Rajan, 2009). The main consequences of these directives for CBs are threefold. First, doubts were raised about the independence and suitability of non-executive directors (i.e., elected member representatives) in an increasingly complicated and regulated banking industry to control bank managers, govern CBs, and assess the risks in banking (European Banking Authority, 2017). The EACB (2016) finds this a worrying view, since it questions the very essence of a cooperative firm; this opinion contests the right of individuals to establish a cooperative firm and monitor "their" own enterprise. The new external governance rules directly affect the profiling and selection of member representatives at local and central governing bodies. Candidates must meet an increasing number of requirements, the so-called "fit-and-proper" principles. These criteria apply for board members of all banks and hence enhances the uniformity of non-executive board members across all types of banks. Second, regulatory and supervisory authorities have understandably pushed for stricter and uniform qualifications for bank managers to run a bank in the modern economy, regardless of the business model followed or the existing ownership structure. This, however, carries the risk that the appointment of technically qualified professionals with similar educational backgrounds, and possibly from outside the cooperative movement, could introduce managerial practices that conflict with cooperatives values (Fulton & Hueth, 2009). The "interchangeability of bank managers" is apparent from the verifiable fact that managers of commercial banks or "other outsiders" are regularly appointed to boards of CBs or their APEX organizations.[9] The question is whether these managers are intrinsically committed to adapting their managerial behavior in a cooperative direction (e.g., Cook, 1994) or whether they—perhaps unconsciously—lead CBs off the cooperative track in a situation of inadequate member control. Third, supervisors and regulators seem to be worried about a high degree of autonomy of local banks and have been pushing for many years towards a growing role for (managers of the) central bodies in the determination of the overall risk appetite (Lamarque, 2018). They expect a strengthening of internal risk management (Mongiardino & Plath, 2010) via streamlined and centralized decision-making processes and the existence of institutional arrangements for internal financial solidarity between all local CBs in case that one entity gets into financial distress (AD 6). Most CB groups now operate with such strong solidarity mechanisms. The flipside is that local loan officers loose discretion in the lending process and may adopt a technical approach to lending and credit-granting decisions like their counterparts in commercial banks. All of this suggests a policy-induced pressure towards more homogeneity in structure, culture and output among banks.

A final remark on regulation is that it seems to contribute to engendering a reflection on key facets of CBs and directly shapes their evolution (e.g., Albert & Lamarque, 2016). There is clear evidence that regulators has required CBs to redesign their organizational and governance models (AD 7). In Italy, regulation forced the ten largest *Banche Popolari's* to transform into joint stock companies and compelled *Banche di Credito Cooperativo* to reform their organizational structure (Di Salvo & Lopez, 2018). In Luxembourg, *Banque Raiffeisen* pro-actively reshaped its governance structure in 2019 when it seemed that regulators considered interventions (Annual Report Banque Raiffeisen, 2019). Shaken by the crisis triggered by top management in 2018, the Swiss Financial Market Authority issued a binding audit mandate to the central cooperative of *Raiffeisen Switzerland* to determine whether and how the banking cooperative could be converted into a stock corporation. (Gernet, 2019). The bank averted this threat through a fundamental overhaul of governance approved by the Financial Market Authority.

[9] This holds for instance of current executive board members of the centrals of Raiffeisen Austria, German Cooperative Financial Group, Banque Raiffeisen Luxembourg, Dutch Rabobank.

TABLE 3 Average domestic market shares of cooperative banking groups

	2000	2003	2006	2009	2012	2015	2018	Change in percentage points (2000-2018)
Loans	15.3	18.0	18.8	20.6	21.6	22.2	23.1	+ 7.8
Deposits	16.1	18.1	18.6	20.2	21.5	21.6	22.2	+ 6.1
Branches	24.6	26.2	26.4	29.3	30.6	32.6	34.5	+ 9.9

Source: Own calculations based on data from cooperative banks (see footnote 3), the ECB and national supervisory authorities.

The isomorphic effects of digitization and virtualization feature in an expanding literature (Meyer, 2018). Since the emergence of electronic payment systems around the mid-20th century, IT developments have actually already been disrupting the distribution concept, business philosophy and income generation of CBs. Gorlier, Michel, and Zeitoun (2018) say that this is true today with regard to new competitors like Fintech companies because CBs still incur large costs for their relatively dense branch networks. Moreover, digitization requires large IT investments and exhibits large economies of scale. To avoid a disadvantageous position in comparison to their larger commercial competitors, the majority of small CBs have moved digitization activities to a central level (AD 5; Cuevas & Fischer, 2006). Fonteyne (2007) argues that this significantly reduced the scope for financial customization at the local level, which in turn eroded their differentiating capacity.

5 | EMPIRICAL, THEORETICAL AND PRACTICAL AFFIRMATIONS OF DISTINCTIVENESS AND SOCIAL INNOVATIVENESS

An important litmus test for the vibrancy of CBs is to look at the evolution of the member base. In order to make a proper assessment, one must realize that membership is no longer compulsory for obtaining a loan from CBs. Since the start of this millennium, the total number of members of CBs in footnote 3 surged from 39 million to around 60 million in 2018—that is a rise of 54%. The average long-term expansion of the number of memberships lies around 2.5% per year. The ratio of the total number of members to total population grew by 4.3 percentage points and currently equals around 17%. This leap provides circumstantial evidence of an increasing popularity and attractiveness; CBs seem to stand out positively from other banks. Otherwise, they would have faced a loss of customers and members (and ultimately a drop in profitability).

The recent strengthening of the domestic market position substantiates the latter inference (Table 3). As far as could be ascertained, CBs attained the highest domestic market shares ever in 2018. The average loan and deposit market share rose by no less than 0.5 percentage point in 2018. As other banks reduced their physical presence more than CBs, the branch market share of the latter surged sharply to 34.5. Moreover, CBs still possess strong market power in the agricultural and food sector throughout Europe. In short, the solidification of market positions expresses confidence and trust.

The branch market share has always surpassed the loan and deposit market share, but the difference has never been as pronounced as it is now. One could argue that a historical differentiator of CBs is still visible: they operate with relatively dense branch networks and are physically close to their members. This observation does not alter the fact that they are increasingly shifting from

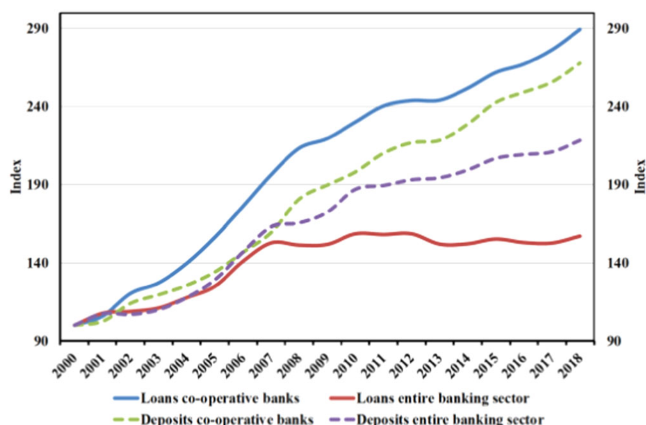

FIGURE 1 Loan and deposit development (2000 = 100) [Colour figure can be viewed at wileyonlinelibrary.com]
Note: It concerns loans and advances to the non-financial private sector, excluding government.
Source: Author's calculations based on data from CB groups (see footnote 3), national supervisory authorities,World Bank and central banks.

physical to virtual distribution channels for their products and services (Gorlier et al., 2018). Academic studies generally conclude that the "nearby" manifestation does not lead to structurally higher cost-to-income ratios for CBs (e.g., Ayadi et al., 2010).

The recent uptick in market shares shows up in high loan and deposit growth at CBs. Figure 1 reveals that they have continuously supplied the real economy, namely SMEs and private individuals, with new loans. Since 2000, they granted the non-financial private sector almost 300% additional loans, whereas the credit volume of other banks just increased by 40%. Remarkably, the loan portfolio of all other banks has not expanded since 2011. These recent data confirm findings of earlier empirical work based on less actual figures (e.g., Coccorese & Shaffer, 2018; Groeneveld, 2014). In spite of significant consolidation and integration, CBs continue to play a countercyclical role due to their relationships build on trust and adequate knowledge of the local context (Bolton, Freixas, Gambacorta, & Mistrulli, 2013). They smooth lending cycles and are beneficial to overall economic activity (Becchetti et al., 2016; Meriläinen, 2016).

Figures 2, 3 and 4 display the averages of three core banking metrics for the aggregated CB sector as well as all for entire banking systems (excluding CBs) for countries where these CBs are located. For the sake of brevity, we confine ourselves to the most salient aspects. As opposed to many for-profit banks, most individual CBs weathered the Great Financial Crisis 2007/8 relatively well without requiring government aid (Butzbach & Von Mettenheim, 2014, Groeneveld & De Vries, 2009). They entered this period with higher Tier 1 ratios (Figure 2) and operated with a

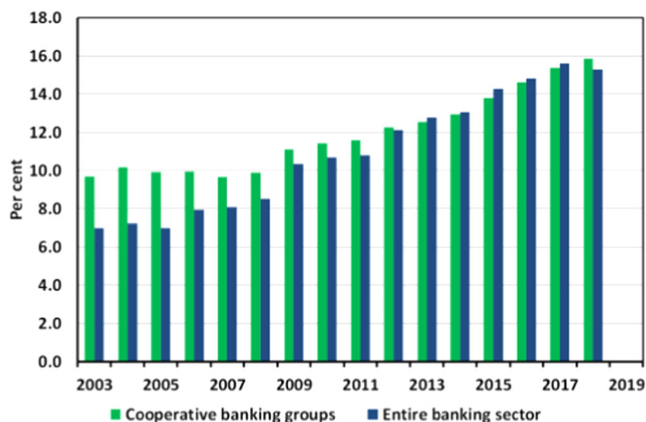

FIGURE 2 Average Tier 1 ratio of cooperative banking groups and the entire banking sector [Colour figure can be viewed at wileyonlinelibrary.com]
Source: Author's calculations based on data from CB groups (see footnote 3), national supervisory authorities,World Bank and central banks.

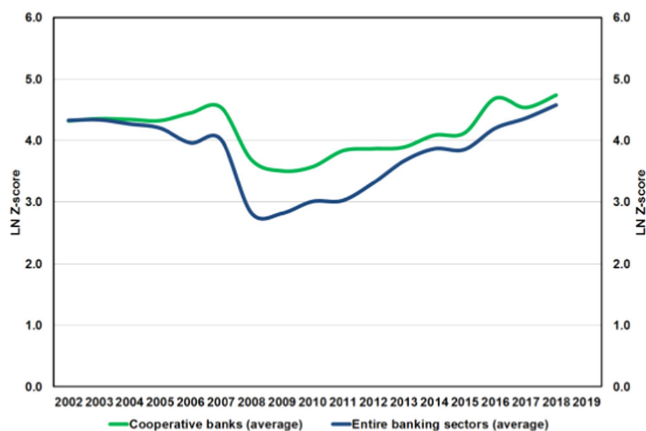

FIGURE 3 Average Z-score of cooperative banking groups and the entire banking sector [Colour figure can be viewed at wileyonlinelibrary.com]
Note: The Z-score is calculated as the sum of equity to assets ratio and the return on assets ratio, divided by the standard deviation of return on assets. We have depicted the natural logarithm of the Z-score for scaling reasons.
Source: Author's calculations based on data from CB groups (see footnote 3), national supervisory authorities,World Bank and central banks.

moderate risk profile. After some economically difficult years, CBs hit a new record level for their average Tier 1 ratio (15.9) in 2018. Note that CBs still build the core of their equity base the hard way: through increasing retained earnings (i.e., the fifth Raiffeisen principle).

New data confirm that CBs continue to serve as stabilizers in national financial systems (e.g., Chiaramonte et al., 2015; Fiordelisi & Mare, 2014). Figure 3 displays the average Z-score (distance to insolvency) as a measure of banking stability. A high level of the Z-score symbolizes bank stability, which means it has enough equity capital to absorb potential losses. For a long time, the stability of European CBs exceeded that of commercial banks due to their lower volatility of returns and involvement in less risky activities (Beck, Hesse, Kick, & Von Westerhagen, 2009; Čihák & Hesse, 2007). An explanation is that CBs are rather careful with their capital because the issuance of shares to compensate losses (and capital evaporation) is no option.

The return on equity, a measure of profitability, mirrors relative differences in business models and orientation between CBs and their competitors. CB groups focus more strongly on retail banking, which generally yields more stable returns and is safer (Ayadi, Cucinelli, & De Groen, 2019). Before the GFC, other banks realized significantly higher ROEs, but we now know that their activities entailed much greater risks (Ferri, Kalmi, & Kerola, 2015). Formal statistical tests confirm that the volatility of the ROE of CBs is lower than that of other banks.

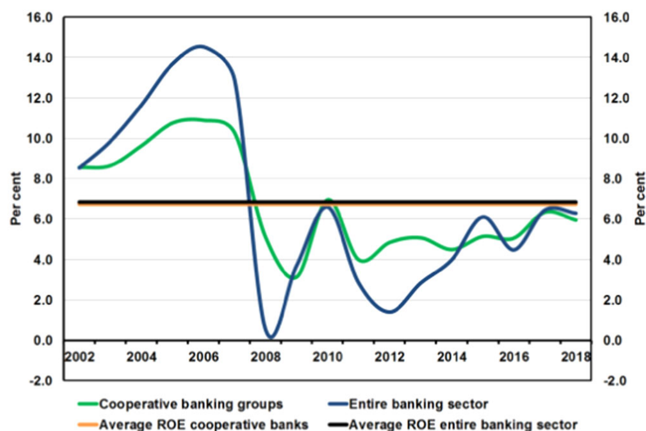

FIGURE 4 Average return on equity of cooperative banking groups and the entire banking sector [Colour figure can be viewed at wileyonlinelibrary.com]
Note: The orange and black lines represent the average return on equity of respectively co-operative banks and the entire banking sector over the period 2002–2018.
Source: Author's calculations based on data from CB groups (see footnote 3), national supervisory authorities, World Bank and central banks.

Finally, the empirics allow for two general observations. The first is that the discrepancy between the indicators of both banking groups depicted in Figures 2, 3 and 4 was much larger before, during and directly after the GFC. The second is that these banking metrics have improved significantly since then, implying that the stability of many individual banks boosted their resilience to future shocks. However, the observed convergence points to a homogenization of the business models of both categories of banks. Various academics ascribe this to (the harmonization of) European and national banking regulation and an increase in competition in retail banking (Ferri & Kalmi, 2017).

We will now zoom in on salient arguments, reasoning and findings from studies that partly refute or nuance the observations from Section 4. Kalmi (2017) elucidates the benefits of tighter integration and networks within CBs. The increased importance and size of most central institutions or central banks over the years does not pose a governance challenge as long as these centrals provide operational support to local CBs and do not initiate sizeable own activities with a higher risk profile. If so, they are contributing to cutting down on risks (risk diversification) and increasing the stability of the group (Desroches & Fisher, 2005). It is important to notice that network structures were already present in the early forms of CBs, as firmly propagated by Raiffeisen. Another advantage is that CB groups could realize their growth ambitions, enter new areas of financial services, and develop new technologically driven distribution concepts. This contributed to diversification of risks and business and enabled them to offer a wide array of services to their member-customers, which would otherwise presumably have turned to competitors (Groeneveld, 2016). Furthermore, hybridization has generally been a strategic effort to enable the cooperative sector to cope with competition and comply with more stringent capital requirements, while still preserving its independence, focusing on both economic and social goals, and securing its continuation (ICA, 2016).

Although the negative effects attached to the abolition of the offer of services exclusively to members and the limitation of member liability many years ago prevail in the scientific debate (e.g., Höhler & Kühl, 2017), we would like to point to underexposed positive consequences. The provision of services to a larger population of users, other than members, has increased the economic sustainability of the business via the realization of scale economies and favored the diversification of risks. The latter is subject to the condition that non-member trade may not outstrip the business with members enormously. Own tentative estimations indicate that the average member to customer ratio of European CB groups has been hovering around 40 in recent years. Today, the existence of full member liability would nullify the attractiveness of economic participation in CBs and deter membership. The unlimited personal responsibility clause for members is incompatible with the strongly increased size of CBs. This was one of the reasons for the evolution towards ever-stronger institutional protection schemes, which materially embody the principle of solidarity among CBs, and minimize the “unsafety” of becoming a member.

Some observers contradict the perceived weaknesses of cooperative governance discussed in Section 4. With regard to the internal dimension, Birchall (2017) points to the availability of governance options for CBs to stay on the cooperative track as well as to contain the risks of activities outside the cooperative part. The articles of association should formally provide member representatives with a loud and powerful voice in local and central governance bodies. They must be empowered to exercise the management and control functions in CB groups and to fulfil corporate governance responsibilities. Training and education of existing and prospective elected board members play a key role in bridging gaps in their knowhow vis-à-vis executives (of local CBs and the central). At the same time, member representatives should be able to fulfil the employer role for bank managers. They ought to be in a position to select people for leadership positions and

correct managers at an early stage who would unduly endanger the bank by diluting the focus on retail and SME banking. Only staff with a cooperative mentality and knowledge of the way in which CBs work should be employed (Stoop, 2018). Especially, on boarding of new staff from adjacent career paths to the CB requires special attention. Rapid assimilation of the cooperative values on the part of new hires is warranted to acquire and respect the finer points of CBs.

At the same time, the European Banking Authority (2017) looks at these internal governance aspects with scepticism. Therefore, it is and remains necessary to familiarise external authorities with the governance characteristics of CBs, which have both a prudential and cooperative purpose dimension. Members of supervisory Boards or members of the Board of directors in a supervisory capacity (Non-Executive Directors) have diverse backgrounds—and not just banking experience and technical skills. This contrasts with shareholder value banks, where Board of directors (supervisory Board members) are primarily selected for their banking and financial experience (Groeneveld & Llewellyn, 2012). The GFC has demonstrated that the latter qualifications are no guarantee for better governance or results. In addition, CBs can also put forward the argument that there is no potential conflict between the owners and depositors/customers in CBs as opposed to the agency problem between owners (equity shareholders) and depositors/customers in shareholder value banks. As cooperative owners have no direct claim on profits, non-executives have no incentive to prefer risky activities like investment banking and wholesale banking (EACB, 2016). Moreover, non-executive directors acquire the required monitoring qualifications and banking knowhow through (compulsory) comprehensive permanent education programs. We certainly do not want to pretend it is easy, but we feel that it is possible to find or train candidates who possess the required skills and expertise to both guard the specificity of the cooperative model and to form a board, which controls and supports bank managers in taking strategic decisions and transforming the business model.

To counter challenges from mounting capital requirements, it is important that CBs continue to insist on the application of the so-called proportionality principle in banking regulation and to display their contribution to diversity in banking (Meyer, 2018; Miklaszewska, 2017). Banking rules should be proportionate to the size, scale and nature of operations of CBs, as well as to the nature, scale and complexity of the risks associated with their business model and activities (Caselli, 2018). Oliver Wyman (2014) and the EACB (2016) add that banking regulators and supervisors should not favor one organizational form over another to simplify their task and should not apply a "one-size-fits-all" approach. This implies that they should not push for more integration and consolidation among principally viable local CBs, or a "forced" introduction of elements of "Shareholder Value Banks" in their governance structures. Otherwise, it could ultimately have disastrous effects for diversity and stability in banking. A review of the research literature and own calculations illustrate that CBs have generally lower incentives to adopt risk-taking activities and this makes them, and the systems in which they act, more financially stable and efficient (Beck et al., 2009). Policy and regulation should in fact do more to preserve diversity and encourage non-traditional forms of bank organization (Llewellyn, 2012).

Migliorelli (2018) nuances the view that digitalization and Fintech endangers the sustainability and distinctiveness of CBs. On the contrary, failing to keep up with digital developments would irreparably damage their competitive position from a banking point of view. This argument underscores that CBs need to satisfy basic conditions to survive and operate on banking markets and to be chosen by customers as primary bank ("license to operate"). Besides, he observes that CBs are experimenting with new (digital) ways to incentivize members to participate in decision-making and governance bodies and are shifting to making connections with communities that share common values, but not necessarily physical proximity (e.g., Giagnocavo & Gerez, 2012). The "nearby"

concept requires a redefinition, implying a different assessment of the closure of branches and mergers between CBs (Jones & Kalmi, 2012). Contrary to popular belief, Goglio and Catturani (2018) state that Fintech is no more inclusive than traditional banking.[10] In fact, the Fintech market excludes some population groups, such as the less affluent, the elderly, and the digitally less talented. Therefore, CBs can still pursue their original goal of reducing exclusivity by serving people left behind by the Fintech market.

We finish this section with some current and verifiable initiatives of CBs to rejuvenate their cooperative nature and to (re)position themselves as social innovators. This approach is not academically sound, but we wanted to put some practical insights alongside empirical, policy and scientific views.

- Unlike for developing countries, access to banking services and products is no longer a major issue in the developed world (Oxfam, 2011; World Economic Forum, 2018). It appears that some CBs brought Raiffeisen's notions back to the future to combat poverty, financial exclusion and indebtedness of many small farmers in developing and emerging economies by providing financial aid and/or technical assistance to agricultural and financial cooperatives.[11] They are currently "exporting" their original set of innovations in principles and social organizations to these countries (e.g., self-help principle and the pyramidal organization);
- The governance complications associated with external capital providers prompted the Finnish OP Financial Group to buy back all listed shares of a subsidiary in May 2014 (for €3.4 billion). This bank motivated this step by stating that it "was born to be owned by customers". The French cooperative BPCE bank has also removed outsider shareholders—that is, has bought back the listed shares.
- German CBs are conducting pilots for a digital membership network, which transfers the advantages of membership to the digital world.
- Rabobank in the Netherlands was the first to decide to exempt SMEs from interest payments and repayments on their loans for six months in response to government measures to limit economic activity drastically in order to prevent the further spread of the coronavirus in March 2020. The bank motivated the steps by pointing to its commitment to support the real economy and not-for profit orientation. All other retail Dutch banks followed this initiative.

6 | RECOMMENDATIONS FOR FUTURE RESEARCH

In writing this article, we encountered various gaps, omissions and contradictions in the literature and policy documents. We recommend new and further research in the following interrelated fields:

1. The recent surge in the number of members is positive, but we can only guess at the reasons behind this. Just a few fragmentary studies attempt to investigate the (perceived) member value generated by CBs (Jones, Jussila, & Kalmi, 2016; Van Hout, 2017). Profound research into

[10] As an aside, the recent scandals due to the lack of confidentiality in the treatment of personal date are negatively affecting the trust in social media companies.

[11] For instance, Rabobank Foundation, Grameen Crédit Agricole Foundation, La Fondation du Crédit Mutuel.

financial and immaterial motivations for becoming and remaining a member, e.g. through methodologically sound surveys, is encouraged. We could then check with members whether they actually experience isomorphic tendencies and mission drift of their CBs, which many studies appear to conclude on merely theoretical and analytical grounds. It could also deliver insights into possible measures to incentivize non-members to become members, or to stimulate members to use more services or to participate in democratic processes (EACB, 2007);

2. Many scholars consider member growth and the increasing optimal size of CBs as threats for the functioning of the governance (see numerous references in Section 4). However, our analysis reveals that these conclusions are generally based on the principal agency theory. As far as we know, the assertions have never been validated against the actual design and functioning of internal governance mechanisms as laid down in articles of association and/or by-laws of CBs. We therefore advocate in-depth research into the formal rights, obligations, roles, and responsibilities of members in local and central governance bodies, the number and professional backgrounds of active members in decision-making. The results might help to mitigate the proclaimed objections and lack of understanding on the part of policymakers and regulators (e.g., EBA, 2017; Lamarque, 2018).
3. Although many studies posit that CBs are dual-bottom line firms (Ayadi et al., 2010), the operationalization of this concept is hardly charted territory. In the cited literature (e.g., Chiaramonte et al., 2015; Becchetti, 2016), performance measurement is generally narrowed down to financial metrics—like the return on equity or cost-to-income ratio—that are particularly suitable for listed companies but fail to take account of the inherent cooperative principles and associated values (Franken & Cook, 2015). Fixation on financial variables alone also ignores the dual objectives (Tischer, Yeoman, Michie, Nicholls, & White, 2016). We invite academics to devise and implement a framework to measure non-financial performance, especially since the mission statements of all CBs (Groeneveld, 2018) contain the phrase that they want to create value not only for their members but also for the local communities where they operate (i.e. 7th-Raiffeisen principle). Such a framework could convey the purported distinction and contemporary social innovativeness of CBs more objectively and credibly to members, society, and policymakers.
4. Centrals of financial cooperatives play an increasingly important role in network structures. These structures yield important benefits, but also cause governance challenges (Desroches & Fisher, 2005; Fonteyne, 2007). Local CBs tend to adopt low risk strategies, but the networks got sometimes involved in much riskier activities (Brazda et al., 2016; Čihák & Hesse, 2007; Vogelaar, 2012). An open question is whether the needs of members/customers or the ambition of the centrals' managers to emulate the activities of commercial banks and boost profits for their own prestige and rewards drives such risky undertakings. We see great merit in analyzing the size and riskiness of activities inside and outside the cooperative core. In conjunction with this, it seems particularly relevant to examine and compare the remuneration schemes of staff and managers of CBs and other banks. Remuneration policies containing perverse incentives for bank employees were generally seen as key drivers behind the Global Financial Crisis (Johnston, 2014).
5. From a macro perspective, the case for retaining distinctive CBs ultimately rests on their contribution to systemic diversity (Caselli, 2018; Llewellyn, 2012). We would like to call on researchers, practitioners and policymakers to explore the implications of diversity of ownership structures, business models and objectives in banking not just from a financial perspective (Ayadi et al., 2019), but for a wider range of both economic and social outcomes (Benos, Kalogeras, Wetzels, de Ruyter, & Pennings, 2018). Indeed, the EU bases its positive attitude

towards the social economy on the notion that diversity in organizational forms leads to more economic stability, a wider range of choice for consumers and healthier competitive conditions (European Commission, 2014; European Parliament, 2009).

7 | CONCLUDING CONTEMPLATIONS

In this article, we have first pointed out that the basic ideas of a German founding father of CBs, F.W. Raiffeisen (1818–1888), reappeared with a new look and have been adopted almost one-on-one in new theories and European policy concepts in the last decades. Today, CBs still constitute a substantial part of European banking (e.g., Karafolas, 2016). They are in (economic) weight and scope an important part of all social enterprises (European Economic and Social Committee, 2017), and, consequently, important pillars of the promoted social economy (e.g., Borzaga & Bodini, 2014).

Section 3 documents seven areas of fundamental historical and ongoing adaptations to their original model due to intertwined internal (or endogenous) strategic considerations, a wide range of external trends and advances in banking regulation and supervision. Section 4 details and explains the far-reaching consequences for the organization, governance and risk profile of these modifications (e.g., Boscia et al., 2010; Butzbach & Von Mettenheim, 2014). Present CBs do not even remotely look and operate like their original constituents more than hundred years ago. Some academics even consider CBs a specie that has outlived its original raison d'être (Goglio & Caturrani, 2018). Indeed, CBs constantly face(d) survival challenges, partly because of their cooperative nature. European-wide CBs have adopted varied strategies to combat difficulties inherent to the cooperative form (Mooij & Boonstra, 2012). Many of the chosen solutions meant to some extent a departure from the founding Raiffeisen principles and a move towards the operational mode, management practices and strategies of commercial banks, namely institutional isomorphism. Among others, Fonteyne (2007) contends that the interests of the banking business seem to have regularly overshadowed the interests of the cooperative part and its members.

However important and illustrative these broadly endorsed conclusions are, Section 5 nuances this picture. Here we present theoretical, empirical and practical evidence suggesting that the distinctiveness of CBs is still perceptible and appreciated and adds value for society. In this millennium, many new members joined CBs for potentially many different reasons (EACB, 2007). Satisfaction with the quality and pricing of financial services must have been the overriding one, but also elements associated with the cooperative character may have had an influence, tough this needs deeper analysis (Höhler & Kühl, 2017; Jones et al., 2016). Unlike all other banks together, CBs have provided SMEs, which are the backbone of the European economy, with access to substantial volumes of new loans since 2011 (Coccorese & Shaffer, 2018). The persistent anti-cyclical lending policy of CBs boosted economic growth and the level of employment (Lang, Signore, & Gvetadze, 2016). CBs are still the main financiers of the agricultural sector in the EU, which is of great significance from a geopolitical perspective (European Commission, 2019). Recent developments in the financial sector also cast doubt on the argument that the CBs' original reason of existence has expired. Since financial inclusiveness is still not self-evident in both developed and developing countries (World Economic Forum, 2018), CBs could dust off their original mission of facilitating access to financial services for underserved population groups (Kappes, 2015). It also seems that regulators and supervisors have imposed some of the traditional business characteristics of CBs to many European banks (European Central Bank, 2017). Acceptance of a one-dimensional focus on profit maximization for shareholders, short-termism and heavy reliance on wholesale funding has vanished since the GFC (e.g., Bank for International

Settlements, 2019). Therefore, we are witnessing a two-way homogenisation of bank business models, behavior and (financial) performance.

Remaining meaningful for members and society, and maintaining the distinctive character require constant attention and efforts (Birchall, 2017). Here we want to accentuate three elements in particular and reiterate the original Raiffeisen principles. First, various researchers suggest that CBs should become re-aware that their key differentiating feature lies in the fact that members bring external knowledge into the organization (Chaddad & Cook, 2004). It is about members being (re-)valued as sources of knowledge, loyalty and communication, not as a burden to be borne by a sceptical management (Stoop, 2018). Social networks based on the multifaceted relationship between members and – employees of – CBs laid down in internal governance rules have and generate social value, with social capital being both an asset and a resource (Christakis & Fowler, 2009). Restoring the examining function of members and reviving reciprocity as the foundation of disciplined trust could reverse or counter some isomorphic tendencies presented (Van Dijk et al., 2019). In this context, central organizations or federations play a pivotal role in providing advice, knowhow and education to members to raise their awareness of the democratic foundations and working methods of CBs (Poli, 2019). In addition to physical contacts, social interaction with the grassroots should also be structured in a virtual way.

The second contemplation concerns the apparently ingrained reflex to accommodate external changes (e.g., Bretos & Marcuello, 2017). As a result of up-scaling developments in the globalizing economy, economic and social trends are often considered faits accomplis and have regularly led to strategies and policies in which other banks appear to function as point of reference (Kalmi, 2017). Consequently, the "cooperative calling" has repeatedly slipped into the background. The lure of growth is particularly perilous to the viability, autonomy and distinctiveness of CBs if this leads to a significantly higher proportion of activities outside the cooperative core (see case studies in Karafolas, 2016; Mooij & Boonstra, 2012) and/or excessive reliance on external financing (Andrews, 2014). History shows that major losses or write-downs at CB groups are rarely concentrated at member banks, but mostly occur at their central organizations or other group entities (e.g., Bonin, 2012; Brazda et al., 2016; Kelly, 2014). This shows that CBs are not superior to their peers, as they make more or less the same mistakes. CBs should resist the temptation to engage in substantial activities beyond retail banking on a cooperative footing and which are unrelated to their core competencies and roots, namely adherence to Raiffeisen's second and third principle. Simultaneously, we plead for limiting outside investment to levels well below legal controls and denying voting rights to external capital providers, namely obedience to the sixth Raiffeisen principle (ICA, 2016). In order to minimize these threats, well-informed and qualified member representatives must have a casting vote in the governance, decision-making and in the recruitment of executives. This consideration refers to Raiffeisen's first principle. An intrinsic belief in the cooperative model must be a key criterion in the selection procedure for managers of CBs. Staffing management teams with subscribers to neo-liberal philosophies will eventually undermine the cooperative orientation (Couchman, 2017).

The third appeal to CBs is that they should not cease explaining their specific governance features in a credible and transparent way to regulators and supervisors. It would hurt CBs and damage diversity and stability in the entire financial sector if these characteristics would—deliberately or unconsciously—be ignored or misunderstood (Caselli, 2018; Miklaszewska, 2017).

Lastly, the signs of the times are complex and obscured by uncertainties. The coronavirus has shaken up the global health situation and the world economy in an unprecedented way (CPB Netherlands Bureau for Economic Policy Analysis; IMF, 2020). Huge economic support packages and draconian monetary impulses should curb the economic fallout of this virus. CBs will not be

immune to the economic pain because of their embeddedness in the real economy and dependence on interest rate revenues. Our data analysis suggests that they are sufficiently robust to withstand this shock. At any rate, today, more than ever, there is an urgent need to promote the concept of cooperation and to invest in the social economy. The focus must now be on fostering sustainable growth, employment and social cohesion. CBs in particular could play a role in supporting local communities and economies, by not only helping their members/customers with continuous and affordable financial services through this economic hurricane, but also sustaining local social causes, providing assistance to cultural and social initiatives that have come under tremendous financial pressure. In times of crisis like these, CBs have the opportunity to demonstrate their solidarity, long-term orientation and local anchoring, which, by the way, turn out to be Raiffeisen's first, second and third principle, respectively.

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