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In quest of increased accountability in the banking sector

Exploring the power of trust within the owner-director relationship

The case of one financial cooperative

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Research thesis presented
by Timothy **LAMBERT**
in order to obtain the title of
“Master en ingénieur de
gestion

ACADEMIC YEAR 2014-2015

Acknowledgements

Before diving into the core of a full year of exciting researches, I would like to express my gratitude to some people who helped me in the accomplishment of this academic adventure.

First of all, I would like to thank Marc Bontemps (NewB) for the time he consecrated discussing and challenging the research topic with me. In the same vein, I would like to express my gratitude to Gilles Renard (NewB) for having allowed me to publish my survey on the website of NewB and invited members to respond to it through the official NewB newsletter. More generally, I thank the whole team for their valuable remarks and support.

Further on, I would like to thank some of the teachers who inspired me in the realization of this thesis. More particularly, I would like to thank Isabelle Ferreras and Geraldine Thiry for the eye-opening course they give at the UCL. Back in my Erasmus stay at Lund University, I feel beholden to the excellent course of “Societal resilience” professed by Prof. Per Becker and “Corporate Governance in Theory and Practice” professed by Prof. Matts Kärreman.

Last but not least, I warmly thank my promoter, Philippe Lambrecht, for his inspiring teaching of corporate governance at the UCL, his patience, and his very precious suggestions all along this academic adventure. I am especially grateful to him for the motivation he succeeded in communicating me through his lectures and meetings.

Abstract

Corporate governance is a field of huge practical importance. Especially, when it comes to studying the governance of banks. The aim of this research is to identify structural and relational avenues likely to promote increased accountability on banks' board of directors.

In doing so, we first shed light on the structural characteristics of so-called investor-owned banks triggering corporate governance issues and more particularly, rendering agency prescriptions inadequate and often promoting pervasive consequences in the sector. We claim that high opacity of investor-owned banks' activities coupled with sharp incentives for increased risk-taking fosters systemic instability in the banking sector.

In our quest of a model of bank more susceptible to host sound corporate governance practices, we turn the spotlight to financial cooperatives. The financial cooperative model, while displaying unique corporate governance facets, has received seldom-academic attention compared to the investor-owned model. Financial cooperatives' ownership structure, namely customer-ownership, allows these banks to operate in a framework with limited incentives for abusing the State deposit guarantee. Combined with a traditional focus on retail-banking activities, cooperatives have remained strongly connected to local communities, reducing informational asymmetries and offering more adapted financial services for their members.

However, these last decades, under the impulse of regulatory reforms, financial cooperatives have tended to grow much like investor-owned banks did. They expanded their activities to non-retail ones and extended their ownership to non-members so as to be capable of competing with classic investor-owned banks.

Since we believe the most central aspect of cooperatives to be the active democratic involvement of members in the governance of their cooperative, and the full dedication of members' representatives to meet their interests, we have had to fix a set of boundaries limiting the cooperatives' business model so as to keep it as close as possible to its cooperative identity.

Once the model of financial cooperative likely to enable high member engagement had been established, we started focusing on the owner-director relationship. Member participation is a central feature of the governance system of financial cooperatives. The question we asked ourselves was: “Can member participation exclusively be explained in the light of the dominant theory in corporate governance, namely the agency theory?”

In other words, could participation or lack of it be explained based on an individual assessment of the costs of controlling the assumed opportunistic behaviour of managers? Based on preliminary interviews and discussions, we were keen to believe that member participation encountered in financial cooperative did not fully match with the one assumed by agency theorists.

Therefore, we searched for alternative motivations explaining member participation. Since we casted serious doubts on the rationale provided by the agency theory to explain member participation in the case of financial cooperatives, we explored the opposite claim of one of its roots assumptions: “What if member participation could be explained by their trust in the cooperative and their representatives?” This approach would lead us to provide support for an other theoretical framework assuming board directors to be pro-organizational stewards rather than intrinsically opportunistic agents.

We quantitatively tested the effect of members’ trust in the cooperative and members’ trust in directors’ integrity on members’ participation to the governance of their cooperative. The statistics show positive and significant correlations between these two trust variables and significant explanatory power of members’ participation in the cooperative. More precisely, we found that members’ trust in the cooperative had a full and positive mediating effect on the relationship between members’ trust in directors’ integrity and members’ participation.

These findings lead us to consider the effect of trust in directors to be more or less significant depending on the trust members have in the guarantees provided by the institution. A trustworthy director operating in an untrustworthy financial institution would not lead to increased member participation. On the opposite, trustworthy directors are found to be more likely to contribute to member participation in institutions that are perceived as trustworthy for their members.

But one may ask: “Why should it be so important to see trust arise in the owner-director relationship?”

We were keen to assume that member participation rooted in prior trust in directors and the cooperative was likely to promote increased accountability on banks’ board of directors. On the basis of one semi-structured interview, we were able to collect support for the assumption that member participation rooted in prior trust and not mere controlling behaviour potentially leads to increased accountability of board directors. The basic assumption behind this intuition is that whenever people (here: directors on board) feel they are not trusted and that they are incentivized to behave in specific ways, they will be more likely to act opportunistically than people who feel they are trusted and connected with those parties who claim to accountability. In other words, trusting behaviour triggers participation-accountability cycles promoting safe and stable governance practices in financial cooperatives.

These findings advocate the need of further exploring the corporate governance of financial cooperatives, as we believe it to be a relevant model of bank allowing for stable, democratic and responsible socioeconomic development. In this perspective, we invite national and international regulators to adopt legislations that allow their particular identity to develop and sustain.

More particularly, the results of our analysis invite us to further explore the power of given financial cooperatives’ institutional guarantees in raising the trust between members and their elected representatives. These guarantees should promote positive member participation and in fine accountability on the board of directors.

Again, further qualitative research is needed to support the relationship between positive member participation and increased accountability on the board of cooperative banks. In our paper we were only able to realize one semi-structured interview which provided support for this assumption.

Last but not least, these findings support the need for theoretical pluralism in the field of corporate governance, as the framework provided by the agency theory clearly appears to be too limited to grab the complexity of banks' governance. Stewardship theory, advocating for a pro-organization view of board directors, would also need to be further developed as the trust we identify in this paper is not given ex-ante and only based upon expectations of an individuals' behaviour. More exploration on the inner aspects of governance, for instance psychological and sociological factors, is needed if we want to get the big picture of organizations' governance system.

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“The subordination of everything to the single aim of monetary profit leads industrial government to take the form of absolute monarchy. Monarchy has a certain simplicity and convenience; but in the long run it is seldom the best for all concerned.”

Morris R. Cohen (1927, p.28)

Introduction

These last decades bear the footprint of the unstable reign of homo economicus. This model of man, proudly making use of the power of self-interested rationality, has undoubtedly contributed to shape and inspire a lot of good things. But of course, each model has its limits, and especially in the realm of corporate governance, it seems that we have been provided sufficient signals to become aware of this fact.

Since the 1980's, countries across the globe are regularly stricken by financial crisis (1994-1995 Mexican crisis, 1997 Asian crisis, 2000 Turkish crisis) impacting the lives of millions of people. Their disastrous consequences not only impact the material wellbeing of people, they are also considerably damaging other spheres of human life. Because it seems essential for long-term socioeconomic development to avoid such disruptions, it is of critical importance for institutions and citizens to look at the sources of recurrent crisis and proactively adapt the rules of the system to make it work in the future.

From our perspective, these frequent economic downturns seem to meet on a common source, namely inadequate corporate governance. In February 2012, Michel Barnier, ex-commissioner at the European Commission, appointed a group of experts to explore ways of structurally reforming the banking sector. The main reason of his call resided in the excessive risk-taking and overreliance on short-term funding the system had allowed, which have been identified as key drivers of the economic downturn of 2007 (Liikanen, 2012).

Bad banking was a driver of systemic instability in our societies before the crisis. Seven years later, the sector is still hosting the same troublesome practices. Apart from some regulatory changes, which have focused on reducing the incentives of banks to invest in risky ventures, structurally speaking, banks are still able and incentivized to use the savings of client depositors to invest in speculative financial assets while not bearing the full cost of the risk-taking. This phenomenon is called “moral hazard” and it strongly inhabits the sector.

However, a shining light in the darkness of this landscape deserved attention. Investor-owned banks are not, despite widespread belief, the rule in the banking sector.

Customer-owned banks, also known as financial cooperatives, provide more than 20% of bank loans in the European Union. The governance of cooperative banks is distinct from investor-owned banks in several aspects. The most critical point however, is their ownership, which we believe is more likely to promote sound governance practices in the sector and limit the probability of recurrent and damaging disruptions, when kept within certain boundaries.

Based upon an analysis of the structural particularities of such banks, we will identify a key determinant for financial cooperatives' successful governance, namely member participation in the activities organized by the cooperative of which they are both "shareholders" and customers. This leads us to define the research question.

Research question

The title of this paper clearly communicates the core driver of our research: "In quest of increased accountability in the banking sector." We are interested in trying to understand *why* bank executives (and non-executives) directors are prone to excessive risk-taking in the sector. On the basis of our diagnostic, we will be exploring off the beaten track solutions, which we believe have received seldom-academic attention in the field.

In this perspective, we will explore the power of one customer-owned banks' governance system, and try to conceptualize the owner-director relationship within the very specific context of this firm. This exploration will lead us to identify factors likely to enhance accountability of board directors in the banking sector.

The originality of this paper does however not reside in the identified path facilitating the creation of accountability. We believe the main challenge of our research to be the finding of new perspectives allowing us to go beyond the kingdom of agency theory. In doing so, one of the core assumptions behind this theory will be challenged and empirical support of departure from it will be provided.

The critical assumption that will be targeted is the one that has brightly been conveyed by Jensen and Meckling (1976, p. 5), stating that "*if both parties of the relationship*

are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal". This assumption leads to the need in corporate governance to design incentive schemes to channel the behaviour of inherently opportunistic managers toward shareholders' desired objective.

We will explore the possibility of trusting behaviour between owners and board directors. Instead of claiming that member participation to governance activities can only be motivated by a controlling behaviour of potential managerial opportunism, we will try to find out whether trusting behaviour is able to promote active cooperation between stakeholders.

Further on, we will try to provide fragments of answers to the question as to whether participation of members rooted in prior trust is able to promote accountability on the board of directors. Indeed, much like Roberts, McNulty & Stiles (2005), we believe the agency toolbox to ultimately promote opportunistic behaviour instead of efficiently dealing with it.

Therefore, rather than adopting an exterior perspective on governance issues, we will jump into the intimacy of the owner-director relationship and try to understand, in the very particular context of financial cooperatives, the inner mechanisms that can motivate directors to act responsibility toward the owner-customers of the firm.

Context

Corporate governance has long and still is being studied as an economic domain. Since the marginal revolution, microeconomics is the main paradigm in the economic sphere. The models deduced from this paradigm are generally based on quiet limited and unrealistic anthropological and societal assumptions (Hirsch, Michaels & Friedman, 1987). Individualistic, opportunistic and self-interested behaviour is taken for granted (Jensen & Meckling, 1976; Stigler, 1981; as cited in Sen, 1987) while in fact, very few empirical studies have supported the veracity of these assumptions (Sen, 1987).

Growing slowly aside, but taking increasingly more importance today, one finds researchers who urge for theoretical pluralism in the field (see Hirsch et al. 1987; Daily, et al., 2003; Pettigrew, 1992; Pettigrew and McNulty, 1995; cited in Huse, 2005). These authors

claim the assumptions orchestrating the agency perspective to be too limitative to grab the complexity of organizational reality.

Consequently, we will follow this invitation to explore new avenues while dedicating our energy to a practical case which deserves much more academic attention than it actually has, namely the governance of financial cooperatives.

Motivations

Often we tend to divert the meaning of the word “*equality*” when considered in the particular context of democratic societies. In our desperate willingness to control everything, we are inclined to interpret the word as the belief that there is no difference between people that is worth considering. In this perspective, equality necessarily works at the expense of freedom, another root value of democratic societies.

We are personally motivated in this paper by the willingness to promote a perspective of “equality” as vector of recognition and promotion of the sensible differences distinguishing human beings’ preferences and traits. Escaping the natural desire to control everything by putting it into tiny closed boxes, and embracing the enriching differences characterizing us all. Only by recognizing and promoting different motivations and different conceptions of a good life, will institutions set the foundations of a democratic society to arise.

Further on, this thesis putting an end to studies pursued in management, managerial motivations ought to be explained. We hope this work to shed light on the possibility of obtaining better results when cooperation is (also) rooted in mutual trust, and not exclusively based on incentives to countervail the assumed opportunism of the cooperating party. Also, we assume cooperation based on trust to be more likely to promote more peaceful relationships as it fosters norms of reciprocity thus accountability between cooperating parties.

As mentioned before, this thesis is also driven by scientific motivations. The underlying scientific motivation is to go beyond agency theory and explore the relevancy of

other, complementary theoretical frameworks. Generally, we believe the field of corporate governance would strongly benefit from new and fresh insights to governance issues.

Last but not least, we believe the societal motivation to be huge and already clearly stated above. Anyway, one of the main societal dimensions of this thesis is to shed light on the importance of promoting sound corporate governance in the banking system if we want to be able to evolve along a sustainable path of socioeconomic development.

Even 7 years after the financial crisis partly triggered by excessive risk-taking in the sector, the institutional framework within which banks operate still allows banks to combine market and commercial activities under one single legal entity, meaning that the tools prescribed by agency theorists to align shareholders and managers' interests are still leading to extensive conflicts of interests in the sector.

Since our intellectual quest wasn't so much about documenting a structural change in the bank than it was about the inner governance mechanism allowing for increased accountability on banks' board, we dedicated our energy exploring the governance specificities of financial cooperatives.

These types of banks have received seldom-academic attention before the financial crisis. Once we learned about cooperatives' banks resilience during the crisis, we were eager to find out whether this model of banks was in a better position to tackle the issues rooted in the investor-owned banking model. Our exploration has lead us to shed light on high potential structural features allowing for increased accountability and stability in the banking sector.

We believe that the cooperative banking model deserves much more academic and political attention, especially now that we feel the limits of what the capitalist system can offer to us.

Chapter 1. Theoretical underpinnings of corporate governance

1.1 Introduction

These last decades, academic research in the field of corporate governance has proliferated. The main driver of interest has been repeated scandals from large corporations around the world causing thousands of individuals to suffer its dramatic consequences. Be it from excessive risk-taking, insider dealing of managers, or pervasive effects caused by inappropriate regulation, today's economic realm doesn't seem to enable the advent of long-term prosperity in our societies. Therefore, today more than ever, corporate governance is of enormous practical importance (Shleifer & Vishny, 1997).

In order to be able to challenge its contemporary issues, it seems appropriate to first start with an elementary exploration of the theoretical roots that shaped the governance environment of firms around the world. The dominant theory, which has largely influenced corporate legislators on both sides of the Atlantic, is called the agency theory. This theory is the first that will be introduced. However, since we cast serious doubts on the ability of this theory to explain the complexity of processes and structures shaping the governance of all types of firms, we will further introduce another theory, which has attracted increasing attention over the last decades. This one is called the stewardship theory.

But before digging into the theoretical roots, let us start with a preliminary overview of the history and definition(s) of corporate governance.

1.2 Historical perspective

1.2.1 *The “managerial revolution”*

As commented by Berle & Means (1932) and Herman (1981), a central feature of the 20th century is the rapid increase in corporations' size and their expansion to a strategic

position. The early advents that triggered the raise of corporations are explained in Appendices 1.1.

Berle & Means (1932), who witnessed the 20th century speed-up of investments after corporations became publicly listed on stock exchanges, stressed out the ever-growing distance separating the owners from the managers of the company (as cited in LaPorta, Lopez-de-Silanes & Shleifer, 1999). This distance was and still is synonym of lower shareholder participation due to the dilution of shareholders' political rights.

The growing size and complexity of corporations soon turned markets into oligopolies hosting powerful directors (Herman, 1981; Tricker, 2015). Indeed, restricted competition and free riding shareholders left managers with lots of discretion on the allocation of the firms' resources (Shleifer & Vishny, 1996). This growing power within the hands of managers has been termed the “*managerial revolution*” (see Burnham or Galbraith, as cited in Herman, 1981), in which autocratic managers could freely allocate dispersed shareholders' wealth.

1.2.2 *An illusion?*

Since Berle & Means' (1932) predictions of growing separation of ownership and control, a dominant stream of research has focused on finding means to prevent managerial expropriation from small and vulnerable shareholders (Jensen & Meckling, 1976; Alchian & Demsetz, 1972; Fama & Jensen, 1983). These influential papers in the field of corporate finance and governance have brightly defended fluid capital market policies as well as strong minority shareholders protection laws in order to unleash the power of markets to protect shareholders from managerial expropriation (Aguilera & Jackson, 2003; Roe, 2003).

Nevertheless, the apparently solid foundations on which these authors have build their theories, namely the plummeting power of shareholders in capitalist economies, have been challenged by many authors. Among the most cited papers, Holderness & Sheehan (1988) Shleifer & Vishny (1996) and La Porta et al., (1999) show that ownership around the world is not as dispersed as initially thought. On the contrary, in some regions such as Western Europe, ownership of corporations is very much concentrated (Faccio & Lang, 2002; La Porta et al., 1999). In these countries, the fear for managerial expropriation is derived from

the fear of controlling shareholder abuses, which is one of the main concerns in the banking sector, as we will see in the second part of this review.

1.3 Defining the concept

The term “corporate governance” is pretty recent one as it appeared around the 1980s’, despite its practice being centuries old (Tricker, 2015). It has to be stated for our sake that the act of “governing” within the economic sphere is of course not limited to “corporations”. Indeed, governing principles and methods are present in quasi all types of firms, from SME’s to cooperatives and partnerships. In line with this perspective, we will focus on firms in general rather than on corporations specifically. Also, feel free to read Appendices 1.2 for a definition and a discussion on the term “governance”.

1.3.1 Definitions of “corporate governance”

Unfortunately enough, there is no single definition of the concept of “corporate governance”. Academics in the field are split along different approaches and assumptions on the way firms should be governed, which leads any definition to be biased (Monks & Minow, as cited in Huse, 2005). This is mainly a consequence of various historical, cultural and ideological influences having lead to considerable differences in corporate governance practices across the world (refer to Appendices 1.3 for an overview of the different corporate governance systems around the world).

To frame the different perspectives in the field, Pieper (2003) proposes a useful categorization of the existing definitions of the concept. The model features a two-by-two matrix enabling us to classify corporate governance definitions into 4 distinctive groups:

Table 1. Definitions of corporate governance

Orientation / Scope	Narrow	Broad
Goal oriented	« Corporate governance deals with the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investments. » <u>Shleifer & Vishny, 1997</u>	« Corporate governance is a system of structures and processes to secure the economic viability as well as the legitimacy of the corporation. » <u>Neubauer & Lank, 1998</u> (cited in Pieper, 2003)
Task oriented	« Corporate governance is a system of structures and processes that arises as a result of the interaction between the owners, the board of directors and the top management team in directing and controlling the firm. » <u>Nordqvist & Melin (2002)</u> (cited in Pieper, 2003)	« Corporate governance is the system by which companies are directed and controlled. » <u>Cadbury, 1992</u>

Inspired from Pieper (2003, p. 4)

The first axe of differentiation is inspired by the work of Neubauer & Lank (as cited in Pieper, 2003). It differentiates those definitions emphasizing (i) the aim of corporate governance mechanisms (the “*why?*”) from those definitions focusing on (ii) the nature of the tasks related to corporate governance (the “*what?*”).

The second axe targets the scope of corporate governance as it makes a distinction between (i) “*narrow*” definitions, mainly focusing on the relationship between managers and shareholders, and (i) “*broad*” ones, trying to integrate several stakeholders in the scope of governance (e.g employees, customers, suppliers) (Roberts & Young, 2005; MacMillan, Money, Downing & Hillenbrad, as cited in Jamali, Safieddine & Rabbath, 2008).

For a detailed analysis of each of these definitions, please refer to Appendices 1.4.

To fit our purpose, we will adopt the definition put forward by Neubauer & Lank (1998): “*Corporate governance is a system of structures and processes to secure the economic viability as well as the legitimacy of the corporation.*” (as cited in Pieper, 2003).

1.4 Two central corporate governance mechanisms

There are two central corporate governance mechanisms that will be explored throughout the thesis. Since we are interested in the relationship that bounds the firms' owners and board directors, we will shed light on the ownership of the firm and on its board of directors.

1.4.1 *Ownership of firms*

1.4.1.1 Shareholder vs. stakeholder ownership

In today's divided world, answering the question "*who owns a firm?*" would lead us to jump into a long-lasting interdisciplinary debate mainly opposing stakeholder-ownership supporters and shareholder-ownership proponents. The main source of debate resides in the fact that ownership structure is one of the most conspicuous traits differentiating between several corporate governance systems (Aguilera & Jackson, 2003; La Porta et al., 1998; Roe, 1993; Tricker, 2015).

While we recognize more sympathy for the former, it would take us another *Mémoire* to develop our point of view. Nevertheless, since our research focuses on the governance of financial institutions, and more precisely of financial cooperatives, it has become a lot easier to define what ownership should be in this case (see Appendices 1.5). Indeed, within the particular model of bank we will study, debt-holders mainly composed of client-depositors are also equity-holders of the firm. This allows us to overcome one of the most pressing conflict of interest inhabiting the traditional investor-owned bank model.

In this paper, we will therefore assume that ownership of a firm can be assigned to the suppliers of capital holding at least one share of the firms' equity.

1.4.1.2 Political and economic rights

Ownership occupies a central role mainly because it is a synonym of control (Barth, Caprio & Levine, 2001; De Córd, 2006). It has to be précised that control is here perceived as the power of a shareholder to influence the firm through his voting right at the Annual

General Meeting or his economic right to sell his shares at any moment. We do not use the word “control” following the definition provided in the Belgian “Code des sociétés” (law of the 7 may 1999), stating that control is either de facto or by right, and existent whenever a stockowner holds more than 50% of the voting rights tight to the firms’ capital shares (Art. 5).

Owners control the firm by making use of their *political* and *economic* rights secured by corporate law:

- *Political rights* mainly consist in voting at the Annual General Meeting (Shleifer & Vishny, 1996). Typically, owners vote on board members (re-)election, changes in legal statutes, mergers or liquidations, etc. Unfortunately, shareholders of modern corporations tend to make little use of their political rights (Fama, 1980). The reasons are many but one of the major ones is that the transferability of corporations’ shares (Kraakman, 2009) combined with their very large size leads shareholders to prefer selling their shares instead of expressing their dissatisfaction. In line with this fact, Levine (2003) points out to the urgent need to provide incentives for- and strengthen the ability of owners to exert effective political governance over the firm.
- *Economic rights* mainly consist in having the right to get dividends on profits made by the firm. The dividends paid to shareholders vary across time, space and industry. However, by selling their stocks, shareholders do also exert governance by “signalling” to the market that managers have not met their expectations.

By making use of these rights to different extent, owners shape the firms’ governance profile and determine the criteria on which a firms’ performance will be assessed (Roberts & Young, 2006; Sur, Lvina & Magnan, 2013).

Therefore, academic literature has started to focus on the impact of different ownership settings on the type of governance applied in firms (Coffee, 2005; Desender, 2009; La Porta et al., 1998; Li, 1994; Sur et al., 2013). For instance, Sur et al. (2013) find that the nature of controlling owner, be it a family, a parent company or an institutional investor, has an impact on board of directors’ composition. La Porta et al (1998) finds that in civil law countries, ownership is largely concentrated within the hands of a controlling shareholder

who is in a position of expropriating minority shareholders, thus putting pressure on the classic agency prescriptions designed for firms with no controlling shareholder.

Unfortunately, regulators have tended to privilege a “one-size-fit-all” approach, designing rules constraining all firms in the same way, regardless of their ownership specificities. This tendency to flee complexity has often lead to pervasive unexpected effects undermining the quality of the proposed rules (Sur et al., 2013).

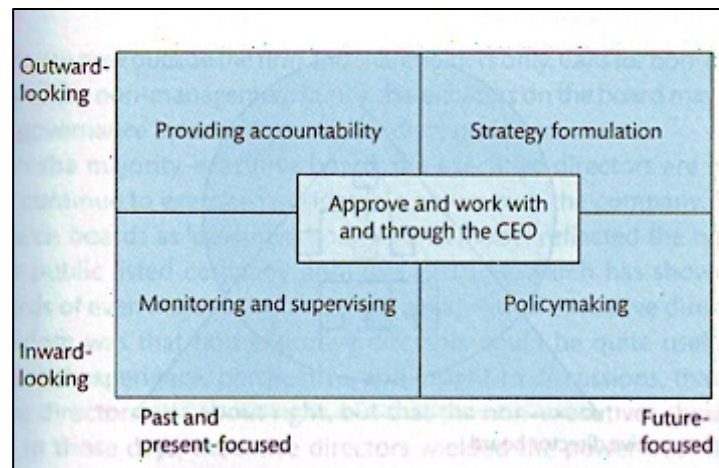
This calls for a comprehensive study of the ownership structure of the firm and the underlining motivations moving the owners. In the second part of this paper, we will dig a bit deeper into the motivations of financial cooperatives’ owners and seek to understand how these motivations can determine the behaviour of board directors.

1.4.2 Board of directors

The board of directors is a central internal corporate governance mechanism. According to Tricker (2015) the board has to be clearly distinguished from the management of a company. Indeed, while management is made of hierarchical relationships, the directors on board are collectively responsible for their performance.

Boards’ role is largely perceived as a monitoring one, overseeing executives’ activities and ensuring they align with shareholders interests (Fama & Jensen, 1983). However, there is much more in being a director on board than overseeing managers (Roberts & Young, 2005). Their role in the company can be modelled as follows:

Figure 1. The roles of board directors



Source: Tricker (2015, p. 47)

Providing accountability corresponds to the act of responding and reflecting corporate performance to those stakeholders of the firm who have a claim to accountability (Tricker, 2015). It is this outward-looking and past-present focused role of the board, which will be put under scrutiny in this this research.

Despite numerous empirical researches on the topic, there still remains very little understanding on boards' work, processes and determinants of performance (Daily, Dalton & Cannella, 2003; Hermalin & Weisbach, 2003; Roberts et al., 2005). Indeed, looking at the board of directors from an outside perspective, considering their structure, composition, CEO/Chairman duality and salary packages, has lead to inconclusive results and more importantly, has refrained us from understanding the internal, social and psychological processes taking place.

As Roberts et al. (2005, p. 2) explicitly claim it, *“the key to board effectiveness lies in the degree to which directors acting individually and collectively are able to create accountability within the board in relation to both strategy and performance”*. Later in this research, we will try to identify means through which accountability of the board of directors can be enhanced in the very particular case of banks.

1.5 Theoretical lenses

Despite the recognition of a plurality of corporate governance systems, their issues have overwhelmingly been handled using a unique theoretical framework called the agency theory (Daily et al., 2003). Today, several papers have challenged the adequacy of agency prescriptions (Dalton et al., 2003; Dalton et al., 1998; Hermalin & Weisbach, 2003) and increasingly more authors call for theoretical and methodological pluralism in the field of governance (Huse, 2005; Pettigrew, 1992; Roberts et al., 2005).

For the purpose of this research, we will mobilize two theoretical perspectives whose underlying assumptions differ fundamentally: (i) the agency theory and (ii) the stewardship theory. By looking through these two theoretical lenses, we should be able to develop a better understanding of the complex relationships linking shareholders and board directors. A third important theoretical perspective, namely the resource dependency one, is developed in Appendices 1.6 but not kept in the core of this paper.

1.5.1 *The Agency Lens*

A lot of academics in the field of governance have focused all their attention on the phenomenon first described by Adam Smith (1776): “*The directors of companies, being managers of other peoples’ money, cannot be expected to watch over it with the same vigilance with which they watch over their own.*” This phenomenon has been reinterpreted in the context of the dramatic increase in corporations’ size following legal innovations in the 19th century, where increasingly more shareholders with diverging interests were vulnerable to directors’ power to control the allocation of shareholders’ wealth (Herman, 1981).

1.5.1.1 **The Agency dilemma**

Agency theory looks at corporate governance practices through the agency lens (Tricker, 2015). An agency relationship arises whenever “*there is a contract under which one or more persons (principals) engage another person (agent) to perform some service on their behalf, which involves delegating decision making authority to the agent*” (Jensen & Meckling, 1976, p. 5). Such relationships are ubiquitous in our everyday life (Eisenhardt, 1989).

As the agency theory adopts the view of individuals all bearing a profit maximization function (Jensen & Meckling, 1976), the survival of organizations is highly dependent on the extent to which managers' power to decide over the allocation of resources coincides with principals' interests (Fama & Jensen, 1983; Williamson, 1988).

1.5.1.2 Characteristics

The agency theory has largely been adopted in financial economics (Fama & Jensen, 1983). It aims at crafting efficient contracts between principals and agents in order to reduce agency cost and maximize firms' performance (Shleifer & Vishny, 1996). For a potential agency cost to arise, two features should characterize the relationship between principals and agent:

1. *Conflict of interest*: principals and agents are assumed to have conflicting interests (Eisenhardt, 1989; Hart, 1995). Managerial opportunism in the form of expropriation or misallocation of the company's resources is a threat to shareholders' willingness to invest ex-ante (Shleifer & Vishny, 1996; Williamson, 1988).
2. *Information asymmetry*: due to their inability to control the agent and their lack of incentives to do so (Hart, 1995), managers end up with substantial residual control rights (Eisenhardt, 1989; Shleifer & Vishny, 1996).

Since complete contracting is infeasible (Shleifer & Vishny, 1996), partly as a consequence of bounded rationality (Williamson, 1988), governance mechanisms, such as legislation, the nomination of a board of directors to carefully look over managers' activities, or incentive contracts are key to avoid managers enjoying the private benefits of controls (Grossman & Hart, 1988).

1.5.1.3 Prescriptions

The positivist stream of agency theory busies itself with designing efficient governance mechanisms to limit agent's self-serving behaviour (Eisenhardt, 1989). Shareholders typically dispose of both internal and external governance mechanisms to reduce risk of managerial expropriation (Walsh & Steward, 1990, as cited in Daily et al., 2003). Among these mechanisms, the most conspicuous ones are:

Internal

1. *Board structure and composition*: according to agency theorists, board of directors arise endogenously as a mean to control management (Fama & Jensen, 1983) on behalf of the shareholders. The problem is that decision management (executives) and decision control directors (non-executives) typically sit on the same board, at least in unitary boards (Tricker, 2015). Consequently, following agency predictions, decision control directors should be independent and incentivized to protect shareholders' interest and resist decision management influences to deviate from their goal. In this perspective, several authors have searched for "ideal" board size, composition and structure (see Hermalin & Weisbach, 1991; Hermalin & Weisbach, 2003; Hermalin, 2005). However, results from these studies are largely inconclusive (Hermalin & Weisbach, 2005).
2. *Contingent incentive contracts*: outcome based contracts are considered effective for curbing managerial opportunism (Eisenhardt, 1989). As preconized by Hart (1995), managers' pay should be dependent on realized profits for the firm. Among the most used incentive contracts are share ownership, stock options or threat of dismissal. However, Shleifer & Vishny (1996) point out to the risks of such incentives schemes as they create numerous self-dealing opportunities for managers in firms' with large information asymmetries between principals and agents.
3. *Shareholder activism*: the agency dilemma calls for increased minority shareholder involvement in the firm. This type of participation is nurtured by the fear of managerial expropriation. Therefore, it typically calls for more transparency, application of CG Codes, internal control mechanisms, etc. All these mechanisms are aimed at controlling and monitoring executives' behaviour and performance.

External

4. *Effective regulation*: minority shareholder protection laws, sound auditing practices, application of corporate governance codes, etc. are corporate governance mechanisms which agency proponents actively promote (Tricker, 2015).
5. *Market for corporate control*: when internal mechanisms don't succeed in promoting sound governance, external market mechanisms come into play (Daily et al., 2003).

Hostile takeover is one of the most influential mechanism in this perspective (Shleifer & Vishny, 1996).

When control mechanisms of the agents by the principals are well designed, i.e when agents' behaviour is more or less predictable, principals are more likely to increase their investment ex-ante, which lowers cost of capital and fosters liquid capital markets (Grossman & Hart, 1986).

1.5.1.4 Assumptions

Several complementary assumptions underpin this theoretical framework. For a detailed overview of these assumptions, please refer to Appendices 1.7. Only one assumption will be presented in the core of this text, as it will be called into question in the following chapters.

1. Individuals are considered as bearing a profit maximization function: *“if both parties of the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal”* (Jensen and Meckling, 1976, p. 5). It is because of this opportunistic, self-serving and individualistic perception of human beings motivations that managerial opportunism is assumed as given and that all corporate governance mechanisms should be setup to control and constraint managers' behaviour.

1.5.1.5 Limits

Many authors such as Pettigrew (1992), Daily et. al (2003), Hermalin & Weisbach (2003) and Hirsch, Michaels & Friedman (1987) have pointed to the theoretical limits as well as the weaknesses of empirical evidence of agency prescriptions. The “under-contextualized” nature of the theory (Aguilera & Jackson, 2003) is mainly a consequence of the positivist stance this theory adopts: dealing with issues by simplifying them at the extreme. Homogeneous categories certainly allow for better control, but they fail at describing the inner-processes at stake between interacting human beings.

1.5.2 The Stewardship lens

The dominant theory in corporate governance (agency theory), assumes that managers and owners have conflicting interests (Jensen & Meckling, 1976). This rather pessimistic view of their relationship has been challenged by academics in the field of sociology and psychology (Hirsch et al., 1987). Among them, stewardship theorists are interested in the motivations that drive agent's behaviour and conclude on a dichotomous perspective of their motivations.

1.5.2.1 Characteristics of the theory

Donaldson & Davis (1991) have developed a complementary, not a mutually exclusive, framework based on a reformulation of the nature of the shareholder-director relationship introduced by agency theorists. This framework specifically addresses the situations in which owners and executive directors are not considered to have conflicting interests (Davis, Schoorman & Donaldson, 1997).

The model of man proposed by these authors is one that perceives higher utility in pro-organizational and collectivist behaviour rather than in self-interested and individualist ones (Davis et al., 1997). This does not mean that they are altruistic (Daily et al., 2003). Rather, in many situations, these men rationally conclude that it is in their best interest to serve their agents' interests (Lane, Cannella & Lubatkin, 1998, as cited in Daily et al., 2003).

Consequently, inherent to this particular lens is the belief that board and executive directors can often be trusted (Tricker, 2015, p.65) and that shareholders' long-term interest in the firm can better be served by perceiving directors as their stewards.

1.5.2.1 Prescriptions following stewardship theory

Stewardship focuses on structures that empower and facilitate the actions of managers instead of structures that control and monitor their behaviour. Consequently, whenever the stewardship model is applicable, shareholders' interests are best served when executives are seen as leaders, steering the boat toward the most suitable island. An example of executive

power increasing mechanism is when the role of CEO and the role of Chairman are held by one unique collectivist person (Donaldson and Davis, 1991).

1.5.2.2 Assumptions behind stewardship theory

1. *Legalistic view of the firm*: this theory is based on a legal conception of the principal-agent relationship in which directors owe fiduciary duty to shareholders' interest (Tricker, 2015). Indeed, stewardship theory does not refute the primacy of shareholders' interests over other stakeholders of the corporations. However, stewards could considerate the interests' of other groups if they perceive a higher utility for shareholders' by doing so.
2. *Self-actualizing model of man*: the model of man fitting the stewardship framework is that of a human that has a "need to grow beyond his current state and reach higher levels of achievement" (Maslow, 1970, McGregor, 1960, as cited in Davis et al., 1997). Managers are pro-organizational and collectivist persons. Their utility is better served by meeting organizational objectives than by serving their own personal needs (Davis et al., 1997). In this sense, agents should not necessarily expect them to act opportunistically.

1.5.2.3 Discussion and limits

Reputational issues play a key role in the pro-collectivist behaviour of executives. As stated by Daily et al. (2003), by managing the firms' performance executive manage their individual performance and reputation. Therefore, this type of behaviour is more likely to be found in organizations where social ties are strong and where mutual trust relationships arise.

Cooperative firms, with legal restriction on the transferability of shares, active member (owner) engagement (e.g cooperatives) and close ties with local communities could theoretically favour pro-organizational behaviour. The institutional guarantees provided by cooperative banks will be detailed in the second part of the paper and will be at the core of the empirical research carried out.

On the other side, one might find the stewardship approach less appropriate for corporations following the Anglo-Saxon pattern. Indeed, as pointed out by Mallin (2004), the internationalization and increasing dispersion of ownership in corporations has lead (mainly) common law countries to adopt minority shareholder protection laws and mechanisms to easily get rid of shares, dis-incentivizing shareholders from politically engaging in the governance of the firm and leading directors to be disconnected and utilized from/by shareholders. (as cited in Tricker, 2015).

This being said, both stewardship and agency theory adopt a contestable ex-ante perspective of executive directors' trustworthiness (Roberts et al., 2005). They can be trusted or they cannot. In practice however, it seem unrealistic to assess the trustworthiness of a director as a given: context, board inside and outside interactions, life experiences lead executives and non-executives to adapt their behaviour. Once this fact has been recognized, it is inappropriate to design mechanisms that control or monitor executives because they should necessarily be perceived as opportunistic or mechanisms that empower executives because they should often be trusted. Instead, boards' processes and dynamic should be taken into account in order to find the means to create accountability (Huse, 2005; Roberts et al., 2005; van Ees, Gabrielsson & Huse, 2009).

1.6 Summary

Let us summarize the elements provided in this first part of our literature review.

After having explored the historical roots of corporate governance, we have noticed that there isn't one single perfect definition of the term. Indeed, different path dependent evolutions have lead several corporate governance systems to arise around the world (Aguilera & Jackson, 2003). Once recognized, we picked up a definition provided by Neubauer & Lank (1998) in Pieper (2003)'s categorization: *“Corporate governance is a system of structures and processes to secure the economic viability as well as the legitimacy of the corporation.”*

We then moved on to explore two central corporate governance mechanisms:

The first is the ownership structure of the firm. It has been claimed that the type of ownership is a critical component affecting the governance profile of the firm. In this paper, we assumed that ownership is restricted to the providers of capital because in the very particular case of financial cooperatives, the conflicts of interests between clients, shareholders and society in general is dealt with by limiting membership to those who are both client and owner of the cooperative. Furthermore, because of the diffusion of ownership and the growing size of corporation, Levine (2003) pointed out to the urgent need to provide incentives for- and strengthen the ability of owners to exert effective political governance over the firm.

The second is the board of directors. Roberts et al. (2005, p. 2) claimed that “*the key to board effectiveness lies in the degree to which directors acting individually and collectively are able to create accountability within the board in relation to both strategy and performance*”. Enhancing boards’ accountability is what moves us in carrying out this research.

Last but not least, we introduced two theoretical lenses providing antagonistic perceptions of board directors’ motivations. The first one, called agency theory, assumes directors to be individual rational thinkers who will act opportunistically as soon as they are given the chance to do so to maximize their own utility. The second one, called stewardship theory, assumes directors to be pro-organizational and collectivist persons. Their utility is assumed to be better served by meeting organizational objectives than by serving their own personal needs (Davis et al., 1997).

The stewardship theory is likely to apply in a context where social ties between owners and directors are strong. Because a central feature of financial cooperatives is their member participation (as it will be detailed in the next part) to the activities of the firm, we are keen to explore the structural guarantees that enable such social bonds to arise and ultimately promote a pro-organizational behaviour of board directors.

Chapter 2. Governance of financial cooperatives

2.1 Introduction

The world did not experience a financial crisis with such damaging consequences on the whole economy since the market crash in 1929. Likewise, the financial crisis triggered in 2007 is a consequence of irresponsible governance in developed market economies.

More particularly, one finds the key role played by banks in fostering speculative financial investments. Early signs of market weaknesses were already felt between 1980 and 1997, when several banks failed and triggered a systemic crisis in three fourth of the IMF countries (Barth, Caprio & Levine, 2001; Lindgren, Garcia & Saal, 1996, as cited in Ciancanelli & Reyes-Gonzalez, 2000).

Accordingly, the governance of financial institutions is considered as an endogenous source of system failure, as the state of its performance trickles down throughout the whole economy (Levine, 2003). Because of this critical role played by banks, it should be of uttermost importance for practitioners to primarily focus on the governance of these institutions.

Surprisingly, their governance has received seldom attention, with most papers coming from the US and adopting the agency perspective as given (Ciancanelli & Reyes-Gonzalez, 2000). Our purpose is to address this gap in the literature by shedding light on the inner processes at stake within the owner director relationship of financial cooperatives.

In this perspective, we shed light on the limits of applying the agency framework to financial cooperatives' governance and introduce alternative theoretical concepts to understand the processes at stake.

2.2 Governance in the financial sector

2.2.1 Pivotal role of financial institutions

Financial institutions act as intermediaries in the economy by fuelling it with liquidity (Macey & O'Hara, 2003). They collect peoples' savings and allocate these funds to productive use, organize payment systems and provide information to capital markets. When they operate efficiently, they reduce costs of capital, stimulate capital formation and accelerate productivity growth (Levine, 2003; Caprio, Laeven & Levine, 2007). Therefore, banks are known to have a huge impact on society (Scholtens, 2009).

In carrying out their functions, financial institutions interact intensively with major actors of market economies; namely enterprises, consumers and public regulators. These consistent interactions create systemic "interdependencies", meaning that banks' managerial culture and performance will automatically spread throughout the whole economy. This is why both authors as well as national and international institutions (e.g. Basel Committee, European Central Bank, World Bank, etc.) stress the importance of banks in securing the safety and soundness of financial systems.

As such, banks are a key component of our economic systems since long-term socioeconomic development considerably depends on their stability, performance and leadership in terms of governance (Caprio et al., 2007).

2.2.2 Governance particularities of financial institutions

The governance of financial institutions differs from the governance of classic corporations in many aspects (Adams & Mehran, 2003; Ciancanelli & Reyes-Gonzalez, 2000). Indeed, according to Levine (2003), there are at least two distinguishing traits characterizing their governance: high opacity of activities and intensive involvement of public authorities. Following Adams & Mehran (2003) as well as Macey & O'Hara's analysis, a third distinguishing trait is included into the analysis: the highly leveraged capital structure of such institutions. Last but not least, following Caprio et al. (2007)'s research, a

characteristic of their ownership will be stressed, namely that European banks' ownership is largely concentrated.

2.2.2.1 Opaqueness

Financial institutions are known to host larger information asymmetries than other types of firms (Furfine, 2001; Morgan, 2002). The reasons behind this distinguishing feature are twofold.

The first source of increased opacity directly results from financial institutions' activities. Ever since the 1980's, the banking sector has known substantial regulatory changes that have, among other things, allowed banks to combine commercial and investment activities (ex: the Gramm-Leach-Bliley Act in the US). The diversification of activities and the growing attention of bank managers to financial market activities, combined with other factors such as growth in banks' size and increased leverage have all contributed to dissuade and limit stakeholders' (e.g. public authorities, shareholders, client depositors) ability to exert proper control over their activities.

In fine, this means that the power to decide on the allocation of a banks' resources and the general conduct of its activities largely resides within the hands of board of directors. This fact calls for increased attention to internal corporate governance mechanisms in the case of banks (De Andres & Vallelado, 2008).

The second reason is related to the inclusion of a third party in the governance of banks (Ciancanelli & Gonzales-Reyes, 2000). As noted by De Andres & Vallelado (2008), the extended involvement of public authorities through financial regulation supports an even more complex web of information streams resulting in increased asymmetries. Three-party agency relationships further limits owners' ability to exert effective control over the activities of banks. Moreover, it might quite confidently be assumed that controlling authorities and executive managers themselves didn't control the risks that were being taken.

These two sources of extensive information asymmetries lead authors to define financial institutions as highly opaque firms (Macey & O'Hara, 2003; De Andres & Vallelado, 2008), which rhymes with large residual control rights within the hands of

managers, and calls for very expensive monitoring and bonding mechanisms to cope with it. In other words, this trait inhibits the ability of shareholders' and debt holders to control and incentivize managers' behaviour properly (Levine, 2003). Ultimately, agency prescriptions to incentivize executives pervasively affect banks' stability and performance, as it tends to foster cupidity and excessive risk taking behaviour.

2.2.2.2 Intensive “one-size-fits-all” regulation

The financial sector has always been intertwined with the public sphere. This fact does however not come as a surprise when one perceives the systemic risk those institutions represent (Morgan, 2002). Indeed, since the 1980s', several scandals in the milieu have caused damaging effects along the various ramifications of the economic sphere. The systemic role of banks have lead international organizations such as the IMF, the World Bank or the Basel Committee to issue recommendations and policies that have substantially changed the legal framework that had prevailed until then (Ciancanelli & Reyes-Gonzalez, 2000).

But these modifications in the legal boundaries of the sector have triggered several, sometimes unexpected, consequences for the governance of banks.

First, it has weakened external governance mechanisms such as hostile takeovers, competition on managers market, and creditors' control (Adams & Mehran, 2003; Andres & Vallelado, 2008; Ciancanelli & Reyes-Gonzalez, 2000; Levine, 2003). Indeed, governments have always been keen to control the ownership and management of those systemic institutions. Therefore, the banking sector cannot be considered as a competitive one leaving external governance mechanisms used by agency theorists inefficient (Ciancanelli & Reyes-Gonzalez, 2000)

Second, through its commitment to guarantee deposits, initially introduced to avoid serial bankruptcies due to rumours, it has increased the potential opportunities for “moral hazard” and ultimately for bank failures. Intuitively, when governments guarantee the deposits of banks', debt holders have fewer incentives to control its management (Levine, 2003; Macey & O'Hara, 2003). Accordingly, shareholders perceive an opportunity for

increased expected return, which ultimately influences managers' attitude towards risk since their compensation is partly tight to financial performance.

In order to countervail this shift in attitude, regulators have had to limit the use of performance-related pay schemes and strengthen legislation on capital requirements so as to increase shareholders' exposure to risk (Macey & O'Hara, 2003). These capital requirements put shareholders more at risk. However, a consequence of such measure is that the increase in the cake's size does not compensate the increase in the number of cake-eaters, which, if diffused owners are less r can lead to even more pressure on managers to allocate funds in riskier ventures.

Third, legislators have tended to privilege one-size fits all approach to regulation of the banking sector. From the mouth of Karl Cordewener, Deputy Secretary General of the Basel Committee, "*simplicity* and *comparability*" are the keywords of the Committees' program (speech during the 6th Convention of Co-operative Banking, March 2015). While simplicity is the best way for each of us to understand the program, it does not necessarily go along with efficiency and suitability. For instance, standardized regulation does not allow for a qualitative interpretation of the diversity of existing bank models.

To sum up, regulation in the banking sector has tended to favour the profit making of banks over its stabilizing role, and in fine promoted irresponsible management by shifting the cost of the risk to other, often innocent, stakeholders (Macey & O'Hara, 2003; Ciancanelli & Reyes-Gonzalez, 2000).

2.2.2.3 Leveraged capital structures

Looking at a banks' balance sheet, it might be surprising to see the very high debt to equity ratio. It typically represents more than 90 per cent of a banks' source of finance (Ciancanelli & Reyes-Gonzales, 2000; Macey & O'Hara, 2003).

The main rationale behind this structural characteristic of financial institutions is to find in the deposit-taking function this type of firm assumes. Indeed, the most historical function is to collect deposits from savers in order to redirect the cash to entrepreneurs or

businesses needing it to further develop. This naturally implies a lot of debt financing (Adams and Mehran, 2003).

The problem of high leverage in the case of banks is that it entails a risk-shift from shareholders to creditors. Creditors' contracts offer a fix payment/interest each year, regardless of the level of profit the firm has made. Consequently, the vast majority of banks' finance suppliers do not benefit from any increase in the risk appetite of the bank. Instead, equity investors who only represent 5 to 10% of the balance sheet are incentivized to increase the risk taking since they would not suffer the loss as much as they would benefit the winnings.

This problem is even more exacerbated by the fact that debt holders are very diffuse and backed by the States' deposit insurance, which leads them to face the same free rider problem as for shareholders (Levine, 2003).

2.2.2.4 Concentrated ownership structure

Widely dispersed ownership as forecasted by Berle & Means (1932) is proven to be the exception rather than the norm internationally (La Porta et al., 1998). The ownership of banks in Europe is largely concentrated. From a sample of 244 large banks across 44 countries, Caprio et al. (2007) show that no more than 25% of banks are widely held, meaning they are not controlled by a shareholder owning at least 10% of the total equity. Among the majority of remaining banks, families own half, while another fifth is controlled by the State.

Several authors have explored the influence of different ownership structures on the risk a bank was willing to assume (Barry et al., 2011; Desender, 2009; Iannotta, Nocera & Sironi, 2007; Sur et al., 2013). Overall, it seems that (i) the tradability of shares and (ii) the type of owners (e.g. institutional investors, families/individuals, public authorities) are determinant factors for the risk profile of a bank and should therefore be carefully taken into account by regulators in order to design appropriate regulatory frameworks.

Further on, controlling shareholders act under the scrutiny of public authorities. For instance, they need to comply with the "*fit and proper*" principle enounced by the Basel

Committee. While this test is initially setup to make sure that managers on board have adequate skills and competencies to direct and control such institutions, it has also contributed to protect controlling shareholders from competition (Levine, 2003).

Also, despite classical agency's perception of the positive benefits of having a controlling shareholder (Shleifer & Vishny, 1996), the important opaqueness of the sector leaves lots of opportunities for controlling shareholders to enjoy the private benefits of control (Hart, 1995; Shleifer & Vishny, 1996).

2.2.3 Instability inherent to investor-owned financial institutions

The aforementioned particularities shed light on the inadequacy of applying agency prescription to investor-owned banks (Adams & Mehran, 2003). The effectiveness of the mechanisms put forward by this theory are considerably weakened (e.g. external governance mechanisms) or even leading to pervasive effects (e.g. performance-related pay) because of the high opacity combined with concentrated ownership and State deposit guarantee. Moreover, the highly leveraged financial structure leads to tremendous opportunities for moral hazard at the expense of client depositors.

This leads us to choose between two paths: (1) provide another diagnosis, id est seeking to go beyond the unique agency perspective or (2) trying to identify options that would make the principal-agent perspective work in the case of banks. We choose to do both.

The former path is explored by trying to show that an ex-ante opportunistic perception of board directors is unable to create accountability within the board. Instead we aim at showing that active participation of owners in the governance of their bank can also be sourced in the belief of the institutions' and directors' trustworthiness. Trustworthiness is however not given ex-ante, which leads us to depart from the stewardship theory too. Following Roberts et al. (2005) paper, we seek to understand the process by which accountability of the board is created and trustworthiness of directors is sustained.

We then explore the second path by focusing on a type of financial institution whose structural features and traditional roots are likely to support better governance, namely

financial cooperatives. We believe that customer-ownership along with other guarantees provided by financial cooperatives are more likely to lead to sound corporate governance in the banking sector.

2.3 Financial cooperatives

Most cooperative groups were founded in the 19th century, during the great industrialization process (Hansmann, 1999). Their initial *raison d'être* was the taking care of those people and enterprises that were left aside (e.g. small rural and urban businesses) during this period of rapid capital accumulation (Birchall, 2013). By providing financial services to those excluded categories, cooperative banks' activities filled the gaps left by for-profit and public banks. The former primarily targeting highly profitable segments, the latest being sensible to the result of the median voter theorem (Weisbrod, 1988, as cited in Holmen, 2012).

Annihilating the widespread belief that financial cooperatives are only small and negligible players, the recent ILO report entitled "*Resilience in a downturn: the resilience of financial cooperatives*" (2013) shows that European cooperative banks serve over 50 million members and hold respectively 21% and 19% of share of deposits and loans in Western Europe. The report considers them as "resilient" because they provided low-income people with financial services, helped stabilize financial systems and revive local economies even during those times of systemic instability following the financial seism of 2008. Accordingly, despite the drop of confidence of European citizens in financial institutions, European financial cooperatives saw their member share rising (average between 2008-2012: 6.3%) during these difficult times (Wyman, 2014).

The resilience of European cooperative banks has lead Groeneveld (2015) and Birchall (2013) to claim these firms are clearly distinctive players deserving more attention from public authorities and society as a whole. Especially, because authors suggest that it is their business model that considerably contributes to shape their governance and determine their resiliency (Groeneveld & Llewellyn, 2012).

2.3.1 Institutional guarantees of financial cooperatives

2.3.1.1 Customer ownership

One of the most decisive distinguishing features of cooperative financial institutions lays in their ownership structure. Customer ownership means that within the cooperative, all or part of the clients are also shareholders and thus owners of the legal firm. Client owners of a cooperative will here be labelled “members”.

Cooperatives’ dedication to their client-members contributes to explain why long-term customer value outpaces short-term financial profit maximization in cooperatives’ social purpose. This leads Groeneveld & Llewellyn (2012) to talk about Stakeholder Value (STV) banks rather than Shareholder Value (SHV) banks. Of course, at least some dividends are paid to members but it remains proportional to the use members make of the business, not of their investment (Birchall, 2013).

While initially cooperatives only served their members, competition rationales have lead cooperative banking groups to expand their customer base to non-members (Groeneveld, 2015; Wyman, 2014). This can largely be explained by concentration and restructuration of large cooperative groups seeking economies of scale (Barraud-Didier et al., 2012). In line with this view, Wyman (2014) suggests that only those cooperatives focusing on their cooperative distinctiveness will succeed in keeping their competitive advantage. If members are to represent an increasingly small share of the customer base, they will tend to ask privileges compared to non-members much like shareholders of investor-owned banks do. This can ultimately lead members to behave as mere investors, asking for financial return without meaningful participation and appropriate risk exposure.

Therefore, in this paper, we focus on those cooperatives dedicating their full attention to their members so as to remain consistent with our research of a model of bank likely to promote sound governance (H0.1).

2.3.1.2 Focus on retail activities

Birchall (2013) and Wyman (2014) further suggests that this dedication to their members has lead financial cooperatives to focus on retail banking activities, generating revenues from loans to SME's, professionals, and people. These activities have favoured the development of networks and internal solidarity mechanisms, which have lowered information asymmetries, hence reduced the risk of their activities and increased owners' participation in the governance of the firm.

Following this argument, we will, in this paper, only consider those financial cooperatives focusing on retail banking activities (H0.2).

2.3.1.3 High level of interaction with member

For customer ownership to be an efficient governance mechanism members need to be effectively participating to the governance of their cooperative. Active member engagement is considered especially difficult to obtain in the banking sector because the pursued strategies of large financial groups are quiet complicated to grasp for people without appropriate qualifications. Also, the ever-growing size of financial cooperatives has created a distance between members and their representatives on board. Technological solutions combined with local presence enable cooperatives to deploy channels to keep in contact with their large and dispersed basis of members.

Henceforth, we seek a financial cooperative taking care for this factor, by developing communication content, which is easy to understand for Mr Nobody (H0.3.a) and communication channels easily accessible to everybody (H0.3.b). Member participation in the governance of their cooperative will further be explored in Section 2.3.2.

2.3.1.4 Capital accumulation from retained profit

Instead of being paid out to individual shareholders, the generated profit made by the cooperative serves to aliment reserves, improve services and expand the business. This is a direct consequence of their customer ownership, promoting a "people centred" business instead of a "profit centred" one (Birchall, 2013). The International Co-operative Alliance

(ICA) clearly states in its third principle “Member Economic Participation” that “members usually receive limited compensation, if any, on capital subscribed as a condition of membership”.

This feature further keeps financial cooperatives’ size within reasonable boundaries, because external sourcing of capital is not a privileged option.

2.3.1.5 Democratic voting principle

Ever since the inception of the cooperative business form, members with voting rights comply with the democratic “one man, one vote” principle, regardless of the amount of capital the member has provided to the firm (Österberg & Nilsson, 2007; Birchall, 2013). This democratic voting principle notably contrasts with the “one share, one vote” principle rooted in traditional capitalist commercial enterprises.

Of course, in the presence of cooperatives with a large number of members, the democratic functioning of cooperatives is synonym of dilution of power (Österberg & Nilsson, 2007), which ultimately leads to the diffuse-type of ownership encountered in the Anglo-Saxon model of governance.

Accordingly, large cooperatives have tended to delegate control to boards of directors and managers (Birchall & Simmons, 2004). The consequences are those described by Berle and Means (1932), where free riding shareholders undermine the very basis on which sound governance of firms can grow.

This forces us to acknowledge that this democratic principle alone does not suffice for promoting sound governance of the firm. Indeed, in the absence of effective member participation, the board of directors get weaker signals of what moves the members (Österberg & Nilsson, 2007), which ultimately increases the probability that managers take decisions misrepresenting all members’ interests.

2.3.1.6 Restricted to national activities

As cited in Barraud-Didier et al. (2012), researchers have found a negative relationship between the size of cooperatives and members' participation in their cooperative. The larger the cooperative grows, the more anonymous members become. Size is even more exacerbating participation when international activities start to represent an ever-increasing share of revenues. The feeling of distance and impersonality leads to members' passivity and it is therefore of uttermost importance for cooperative banks to keep in touch with the local level (Groeneveld & Llewellyn, 2012).

Consequently, member participation is assumed higher in a financial cooperative fully dedicated to national organizations and citizens, which in the case of Belgium, considerably limits the size of the cooperative (H0.4). This assumption further supports national regulators' interest to promote such banks because it will thrive to improve its citizens' wellbeing.

2.3.1.7 Limited transferability of shares

Equity shares of cooperatives cannot be transferred to non-members because they are nominative. This contrasts with modern corporations for which shares are anonymous and can be transferred very easily (Kraakman et al., 2009).

As developed earlier in this paper, political participation of owner in the governance of the firm is partly influenced by the extent to which it is easy for this owner to sell and get rid of the shares he holds. Accordingly, owner participation is more likely to be found in cooperatives' due to the rigidity of their capital structure.

Further on, this feature translates into the absence of stock market for cooperative enterprises (Birchall, 2013). Without stock markets, the market for corporate control put forward by agency theorists as an efficient external governance mechanism is drastically weakened (Groeneveld & Llewellyn, 2012; Hansmann, 1999). This limitation is even more salient given the "democratic voting principle" of cooperatives, as it inhibits ones' ability to take control over the firm.

Consequently, internal corporate governance mechanisms, such as board of directors and owner participation are key to understand how sound governance can be promoted in financial cooperatives.

2.3.2 Members engagement in the governance of the cooperative

The aforementioned structural characteristics and institutional guarantees shaping the governance system of financial cooperatives constitute preconditions to effectively tackle one of the most critical issues affecting the governance of banks: the inclination of managers to take excessive risks at the expense of diffused client depositors. This structural failure in the classical investor-owned bank is the source of both (i) dramatic moral hazards and (ii) recurrent crisis triggered by instable financial systems.

Nevertheless, another question remains: how can we go beyond agency theory, searching for other insights, while still seeking to improve the governance of banks? The way we will approach this question, is by translating it into the following one: “Is there any room for trust in the owner-director relationship and if yes, can it stimulate the creation of accountability?”. To understand this, we have to look at members’ participation to the cooperatives’ activities and see whether it is rooted in prior trust in directors and likely to promote accountability of board directors.

2.3.2.1 Member participation: a pillar of cooperative governance

Back in 1835, Alexis de Tocqueville had the genius to identify peoples’ willingness to associate with each other, regardless of the socioeconomic background, as one of the early conditions for democratic societies to emerge. In the same vein, we are lead to believe that a cooperative can only be considered so, if its members participate and interact with each other in an equal and free spirit.

Democratic member participation is one of the 7 fundamental principles erected by the International Co-operative Alliance (ICA). As stated in Putnam (1995), civically engaged communities are more likely to lead to successful outcomes. Therefore, we perceive member active participation as a key factor for responsible governance to arise, since it affects the

suitability of the elected representatives and the quality of the decisions that will be taken. This is even truer as cooperatives' structural features weaken traditional external governance mechanisms (Hansmann, 1999).

This reality has lead several authors to claim that member engagement in the governance of their cooperative is key for their long-term success and competitive advantage (Bhuyan, 2007; Birchall, 2013; Wyman, 2014).

2.3.2.2 Factors driving member participation

Hansmann (1999) notices that cooperatives are usually much more controlled by their member-owners than are investor-owned firms. Wyman (2014) shows that in large cooperative banks on average 17% of members make use of their political rights at local banks' general assemblies. To understand member participation however, one should look at two different dimensions: (1) what supports members' ability to participate and (2) what motivates members' to participate.

- *Factors supporting the ability of members to participate*

The main rationale Hansmann (1999) puts forward for this high responsiveness of members is that the cooperative usually setup bottom-up communication channels aimed at involving everyone into the governance of the firm. Typically, members are invited to actively participate at AGM's, other non-statutory activities (e.g. local committees, events, online voting on cooperatives' projects, etc.) or by taking a sit on the cooperatives' board of directors (Barraud-Didider et al., 2012).

This bottom-up approach to governance provides members and managers with the tools to express and take into account the diversity of interests, instead of the single restricted profit maximization interest. In this sense, cooperative firms overcome the limitations imposed by the agency framework, as it allows for a plurality of interests to enter the scope of study.

Further on, resources held by participants (e.g money, time, confidence and skills) also contribute to explain why some members participate to certain activities and why some others don't (Birchall & Simmons, 2004).

- *Motivations of members to participate*

Regardless of their ability to participate, the question here is why do members take part to the governance of their cooperative?

According to Birchall & Simmons (2004), participation is motivated by two approaches: (i) an individualistic approach rooted in social exchange theory and (ii) a collectivistic approach rooted in social cooperation theories. The former considers individual rewards and punishments as motivators of participation. The latter looks at members' shared goals, shared values and sense of community to understand participation. While these motivations can be present ex-ante, they can also arise as a consequence of different dynamics in the cooperative.

Evidence from literature supports the idea that "if the members have had a chance to express their minds, they may support a decision that is at odds with theirs wishes, provided that they get a good explanation" (Österberg & Nilsson, 2007, p. 12). We interpret this as a signal that collective dimensions supersede individualistic thinking.

2.3.2.3 Outcomes of member participation

Ensuring member participation carries the cost of setting up the right incentives and the cost of pulling a plurality of (often) conflicting interests together in the decision making process (Birchall & Simmons, 2004). However, once it is fine-tuned, participation is likely to trigger a series of outcomes likely to lay the foundations of a governance system promoting high and sustainable socioeconomic performance.

According to Putnam (1995), high level of participation enables the advent of a sense of the "collective", fostering norms of reciprocity and encouraging the rise of social trust. As stated by Birchall & Simmons (2004), cooperation (not competition) allows individuals utility function to integrate collective norms such as shared goals, shared values, and a sense

of community. We assume such participation to be able to foster accountability on the executive directors' part by fostering norms of reciprocity and loyalty between owners and directors. This will be tested in the empirical part.

2.3.3 *Trust as a dimension of meaningful cooperation*

Trust is homeless in the agency world. The assumption of managers' opportunism, so characteristic of neoclassical economics, automatically calls for suspicion and control mechanisms in the face of risks (Roberts et al., 2005). The aim is always to reduce the principals' vulnerability against agents' misbehaviour. This philosophy promotes a degenerated type of trust since it fails at going beyond predictability, by accepting some kind of risk or vulnerability (Mayer, Davis & Schoorman, 1995). Many authors, among whom one finds Sen (1987), Levi (1998) and Daily et al. (2003), have clearly challenged the reductionism operated by this assumption. Among other things, it completely overlooks the social and economic benefits of a certain level of mutual trust.

In this section, we will briefly introduce the roots of trust as well as some of its outcomes. It should already been said that the relational power of trust will later serve to partly explain members' participation in the governance of their cooperative and the plausible impact this kind of participation has on the level of accountability of board of directors.

2.3.3.1 The roots of trust

Issues of trust are only relevant in situations of risk (Mayer, et al., 1995). This has lead Rousseau et al. (1998, p. 395) to define trust as the "*psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another*". Vulnerability occupies a central role in this definition, as it implies there is something of importance to be lost (Mayer et al., 1995).

Trust is traditionally perceived by the literature as hosting an affective component and a cognitive process (Hansen & Morrow, 2003). These two dimensions have different antecedents thus should be considered as distinct, but still complementary (McAllister, 1995, as cited in Barraud-Didier et al., 2012). As we will be focusing on a relationship (owner-director) characterized by large distance and infrequent interaction, the affective component

of trust is not as prominent as the cognitive aspect. Indeed, as stressed by La Porta, Lopez-de-Silanes, Shleifer & Vishny, (1996), trust only really becomes a key determinant for efficient cooperation in these cases where interaction are scarce and several people are involved in the participative process. Therefore, cognitive trust is expected to be an important dimension of the member-director relationship within cooperative banks.

Cognitive trust results from an assessment by the trustors (people who grant trust) of the trustworthiness of the potential trustee (people being trusted) (Mayer et al., 1995). In doing so, people tend to find “good reasons” why they can trust someone/something. The assessment of the trustworthiness can be applied to a person or an institution (Levi, 1998) and be modelled using three components: trust in the ability, the benevolence and the integrity. Please refer to Appendices 2.1 to have a view on the model of trust developed by Mayer et al. (1995).

Integrity is said to be especially determinant for trust in early relationships where real interactions are scarce. It is dependent on trustors’ acceptance of the set of principles guiding the trustee (Mayer et al., 1995). As the trustor will initially not be able to assess it through direct interaction, he will mostly rely on information provided by third parties (e.g institutional guarantees of an organization) (Levi, 1998). For the purpose of our research, and because we will be constrained in the length of our questionnaire, we will only focus on this dimension of some-one(thing)’s trustworthiness. This assessment of the trustworthiness of someone/something is further influenced by the trustors’ propensity to trust, which can vary across time and space (Levi, 1995; Mayer et al., 1995).

2.3.3.2 The effects of trust

Several analyses suggest that trust is an important determinant of an institutions’ performance (Gambetta, 1988, Coleman, 1990, as cited in La Porta et al., 1996; Putnam, 1993). While it cannot be considered as a virtue or a vice (Levi, 1998), trust enables cooperative behaviour and especially contributes to support participative processes (Birchall & Simmons, 2004; Österberg & Nilsson, 2009). In this perspective, it can reduce the risk of harmful conflicts and promote social network relations inspiring loyalty and reciprocity (Rousseau et al., 1998).

From an economic point of view, trust among stakeholders reduces transaction costs (Bhuyan, 2007; Hansen & Morrow, 2003). Indeed, as stated before trust entails a willingness to take risk, which doesn't translate into costly mechanisms to turn the trustee's behaviour as predictable as possible (Mayer et al., 1995).

It must be précised that trust or distrust can lead to very different motives for participation. As Levi (1998) puts it, republicans argue about the need of citizen vigilance and participation to the democratic process based on former distrust of representatives. This type of participation is mainly control type participation, which is advocated by agency theorists. In our research, we are looking for member participation as behaviour motivated by other rationales than the unique need to control directors.

Therefore, we will assess members' trust in the integrity of the directors on board as a signal that their involvement is not merely a controlling one.

2.4 Summary

This section provides a brief summary of what has been discussed in the sections composing this second part of our literature review.

First, following Scholtens (2009) words, we claim that banks have a huge impact on society because of the systemic risk they carry. Therefore, despite seldom-academic attention, we consider it to be of critical importance to study the particularities of their governance systems.

According to several authors, the governance of financial institutions differs from the governance of classic corporations (Adams & Mehran, 2003; Ciancanelli & Reyes-Gonzalez, 2000; Levine, 2003; Macey & O'Hara, 2003; Caprio et al., 2007). In this perspective, we review the governance specificities of these institutions and come to the conclusion that classical agency prescriptions are of very limited use to improve the corporate governance of investor-owned banks.

Consequently, we turn our attention to another model of bank, which we believe to be more likely to promote sound corporate governance. The model of interest is that of financial

cooperatives. Authors have highlighted that the sources of their comparatively high resilience during times of crises is to be found in their particular business model (Birchall, 2013; Groeneveld, 2015).

However, because of increasing pressure to compete against investor-owned banks, financial cooperatives have tended depart from their initial model. This fact along with its consequences has lead Wyman (2014) to claim that only those cooperatives focusing on their cooperative distinctiveness will succeed in keeping their competitive advantage. Therefore we identify structural aspects of financial cooperatives likely to safeguard their valuable distinctiveness.

One of the most central factors of these firms' governance is active member engagement (Birchall, 2013). To understand member participation, we look at two key dimensions: (1) what supports members' ability to participate and (2) what motivates members' to participate.

Among the motivations for members' to participation, Birchall & Simmons (2004), identified two main approaches, namely (i) an individualistic approach rooted in social exchange theory and (ii) a collectivistic approach rooted in social cooperation theories. The individualistic approach more or less represents the one assumed by agency theorists, namely an assessment of the individual pros and cons of participating. The collective approach is of a different kind as it is rooted in social trust derived from shared values, shared goals and a sense of community.

Because this collective approach to participation is rooted in prior trust, we shed light on the roots and effects of trust. La Porta et al. (1996) claim that trust becomes a key determinant for efficient cooperation in these cases where interaction are scarce and several people are involved in the participative process. Therefore, following the ideas of Birchall & Simmons (2004) and Österberg & Nilsson (2009), we expect trust to be an important dimension of member participation in financial cooperatives

Chapter 3. Hypothesis

Time has come to lay the foundation of our empirical study. We will start by defining the chosen variables. Then, we define the a priori hypothesis we need to posit in order to concentrate on a financial cooperative that is really likely to promote active member engagement. Last but not least, we set the hypothesis that will be tested through our questionnaires.

3.1 Variables

3.1.1 *Age / Gender / First-language*

A scale was used to collect peoples' *age*. It entailed 7 categories: (18;24), (25;34), (35;44), (45;54), (55;64), (65;74), (>75). According to Österberg and Nilsson (2003), this variable might influence the trust members have in their board as well as their attitude toward participation in the governance of the cooperative. It will be used as a proxy variable in this research. *Gender* (Male/Female) and *first-language* (French/Dutch) were also used as proxies. In Belgium, French-speaking and Dutch-speaking people differ in their attitudes because of different cultural roots.

For the four scales developed below, a 5-digit Likert scale was used to assess respondents' agreement with propositions: strongly disagree (1), slightly disagree (2), neither agree nor disagree (3), slightly agree (4), strongly agree (5). The distance between each option is assumed to be equal; hence the results of each scale will be treated as continuous variables.

3.1.2 *Members' satisfaction with performance*

Cooperative members' satisfaction with the overall performance of the cooperative is a control variable likely to influence members' trust and attitude toward participating to the governance activities organized by the cooperative. Therefore, it also serves as a proxy

variable. It comprises one item (*satisperfo*) formulated as follows: “*Globally, I am satisfied with directors’ work for the cooperative*”.

3.1.3 *Trust in the cooperative*

Members’ trust in the institutional guarantees provided by the cooperative through statutory and non-statutory documents is expected to influence their motivation or attitude toward participating in the governance of the cooperative as well as their assessment of the trustworthiness of directors.

A scale was created to assess members’ confidence in the guarantees provided by the institution. It is composed of 4 items (see Appendices 3.1). None of them needed to be inverted. The obtained Cronbach α of the scale is **.863**.

3.1.4 *Trust in board directors’ integrity*

Trust in director’s integrity is mainly a consequence of members’ evaluation of the board directors’ trustworthiness (Mayer et al., 1995). As the surveys were sent to a panel of members without specific interest in/knowledge of the corporate governance jargon, instead of talking about the board of directors we asked about the “directors”, assuming it to be a synonym of the directors on board. In French, it was translated into “dirigeants” and in Dutch into “leiders”.

The scale is composed of 5 items derived from Campoy (2006) (see Appendices 3.2). Item 2 (trust02) and item 4 (trust04) had to be inverted. The obtained Cronbach α of the scale is **.804**.

3.1.5 *Members’ perception of their participation in the governance of the cooperative*

Members’ attitude toward participation is considered by the literature as a proxy of their effective participative behaviour (Hansen and Morrow, 2003). This socio-psychological variable is derived from the following reasoning: “the likelihood of cooperative abandonment

was higher if members perceived that their input was not valued by the management in making decisions” (Bhuyan, 2007).

The scale is derived from Österberg and Nilsson (2007) and is composed of 5 items (see Appendices 3.3). None of them needed to be inverted. The obtained Cronbach α of the scale is .784.

3.2 A priori hypothesis

Following the theoretical development presented in the literature review, our quest for a bank able to host of sound corporate governance has lead us to define a set of constraining boundaries, which are guarantees we believe the cooperative should provide to its members in order to favour sound corporate governance and trusting member engagement.

3.2.1 *Fully-dedicated to its members (H0.1)*

The model of financial cooperative able to promote sound governance ought to be working for its members only.

3.2.2 *Commercial activities only (H0.2)*

The model of cooperative ought to be focusing on retail banking activities, leaving trading activities out of its portfolio.

3.2.3 *Commitment to ease comprehension of communications (H0.3a)*

The model of financial cooperative should setup communication plans that foster members' understanding of activities.

3.2.4 *Commitment to develop effective communication channels (H0.3b)*

The model of financial cooperative should deploy effective online and real life communication channels with their members.

3.2.5 *Activities limited to national boundaries (H0.4)*

The model of financial cooperative should limit its membership to the national boundaries within which it is evolving.

Taken together, these hypotheses contribute to shape a model of financial cooperative more likely to tackle the free-riding problem of diffused owners. These are all guarantees provided by the cooperative that should be found in the statutes or other official documents of the cooperative.

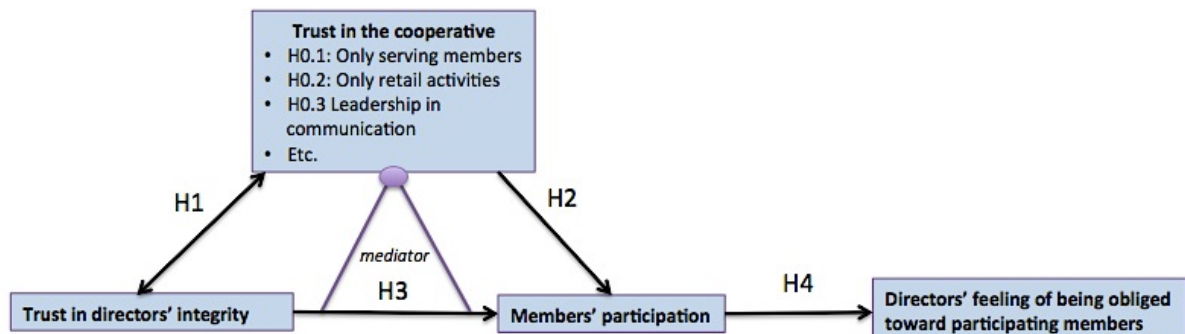
Nevertheless, it has to be clear that the following guarantees we believe supportive for sound governance are far from being sufficient or exclusive ones. They are only intended to give an idea about the type of guarantees that can support members' active participation to the activities organized by the cooperative.

3.3 Hypothesis to test

In the previous section, we have theoretically identified features of a cooperative banks' business model likely to foster sound corporate governance. Now it seems opportune to state the hypothesis that will be tested in our empirical study.

Our aim is twofold. First, we want to understand the extent to which member participation derives from given institutional guarantees and the cognitive trust they have in their executive directors. Second, we want to know whether members' participation rooted in prior trust can foster accountability on the part of the executive directors. This type of participation would not be a mere controlling one, but participation sourced in symbolic and political motivations.

Figure 2. Research model



Source: self-made

The hypothesis are formulated as follows:

3.3.1 *Correlation between members' trust in board directors and trust in the cooperative*

H1

"Members' trust in the cooperative is correlated to members' trust in board directors' integrity."

We assume that members' trust in their board directors' is correlated with members' trust in the cooperative. Indeed, a set of institutional guarantees defining the scope of the cooperatives' activities and stressing the ethical foundations of its existence can be a good signal of the mind-set of the directors on board. Also, board directors' reputation is assumed to have an impact on members' trust in the guarantees provided by the cooperative.

3.3.2 *Members' trust in the cooperative explains members' participation*

H2

"Members' trust in the institutional guarantees predicts members' attitude toward participation in the governance of the cooperative."

Further on, the trust members' have in their cooperative is assumed to be a good predictor of members' participation in the cooperative. Whenever members don't affiliate to the cooperative, don't feel connected to the community or if they are deceived by the extent to which the guarantees are effectively turned into reality, members will be less likely to take part to the organized activities of the cooperative.

3.3.3 *Members' trust in directors' explains members' participation*

H3

"Members' trust in the integrity of directors' predict members' attitude toward participation in the governance of the cooperative through the mediating effect of members' trust in the cooperative."

More specifically, we assume members' trust in directors' integrity to enhance members' trust in the cooperative, and in fine members' participation in the cooperative. We test this hypothesis by adding the plausible mediating effect of members' trust in the cooperative. Indeed, we believe trust to foster reciprocity only within particular institutional settings where accountability of agents can be expected.

3.3.4 Member participation rooted in prior trust promotes directors' accountability

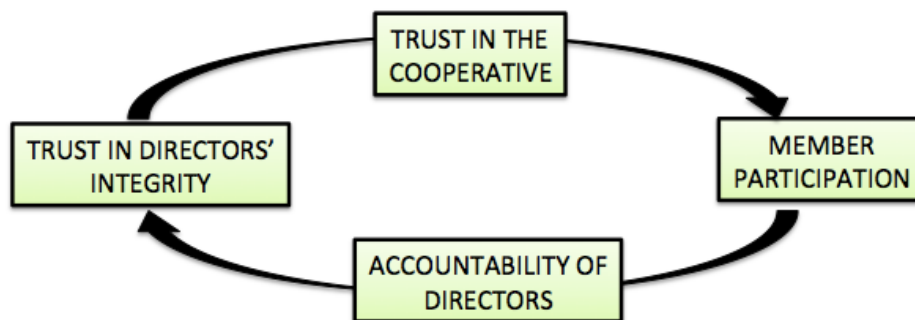
H4

“Board directors' accountability toward members is enhanced when members actively participate to the activities organized by the cooperative.”

Last but not least, we want to test whether members' participation rooted in prior trust is able to promote accountability of board of directors. Our basic assumption is that participation motivated by prior belief of director opportunism will lead to interactions and mechanisms that ultimately incentivize directors to hide information and escape control. We test whether once trusted and supported by the members through active involvement, board directors are assumed to be more likely to show accountability.

The research model could further be sketched as follows:

Figure 3 Trust accountability loop



Source: self-made

It should be précised that our view of trust in directors is different from the one vehicled by stewardship theorists since we don't belief trust is given ex-ante. On the contrary, as sketched in the above figure, trust is part of a process of proven accountability, which

positively or negatively affects the trustworthiness of directors and is only relevant through the mediating effect of specific institutional settings likely to foster members' trust in the cooperative.

Chapter 4. METHODOLOGY

The description of the process through which this study has been carried out is mainly based on an influential methodological book for management students written by Saunders, Lewis & Thornhill (2009) called “Research methods for business students”.

4.1 Research philosophy

An idea that has been brightly promoted by the Frankfurt School of social criticism, and more particularly by one of its most influential characters, namely Habermas (1972), is that research cannot be purely objective. Research is part of the political process and choosing to adopt one perspective on a topic is a testimony of a specific knowledge interest. Therefore, the way we are going to approach the problem is a signal about our privileged way to view the world (Saunders, et al. 2009).

Based on the literature review, one can easily recognize we are not adepts of the theoretical roots of the agency theory. If we use the arguments put forward by the agency theory, we do it only to show they are of very limited use in the actual shape of the banking sector. Rather, we are looking for theories that allow us to shed light on more inner aspects of human beings and approach corporate governance in a less positivistic way.

Consequently, we can claim this research to be better fit an interpretivist approach, looking at people’s feelings and attitudes to understand their role as social actors (Saunders et al., 2009).

4.2 Research design

4.2.1 The purpose of the research

4.2.1.1 Type of research

According to Saunders et al. (2009), there are three typical types of research methods: (1) descriptive, (2) exploratory and (3) explanatory. These methods translate different research purposes.

While it seems difficult to really define one specific purpose for our research, we are lead to think of it as an exploratory one more than an explanatory one. Indeed, we are curious about finding a model of bank more likely to promote sound corporate governance than the classic investor-owned one. Once we have found financial cooperatives to display a unique combination of institutional guarantees, we moved on to find traces of members' trust in the cooperative and exploring whether it has any impact on member involvement in the governance of cooperatives. Then, we further explored the power of this type of participation in promotinf accountability on the board of directors of the targeted financial cooperative.

Thus, while we use explanatory quantitative techniques, our aim is really about exploring the potential of trust in enhancing the corporate governance of banks. For a detailed explanation of the intellectual journey that lead us here, please refer to Appendices 4.1.

4.2.1.2 Formulation of a research model

The research model is exposed in the previous Section (3.3). It is the consequence of an intellectual journey following a funnel-type process. It was important for us to ensure feasibility and relevance of our research topic. Therefore, when we arrived at a point where we could formulate our research question, we passed it through the Godlilocks test, assessing its size, its hotness, and its originality (Saunders et al., 2009).

We believe our research topic to meet these three criteria. Size was controlled because we chose a very specific point of view, namely that of trust, and applied it to one single financial cooperative in Belgium. Because the dominant stream of research does not favour socio-psychological aspect departing from the basic set of assumptions, we believed our research topic to be hot enough. However, it was not seen as too hot because it is increasingly more recognized in the literature that alternative explanations for owners' and managers' behaviour are needed to grab the complexity of firms' corporate governance. Last but not least, we thought our research to be original due to the preliminary assessment we carried out on the (in-)adequacy of agency prescriptions'. It is only after having identified the weaknesses that we switched our attention to a model that appeared more relevant to us and that we started studying one of the most central relationship of the firm.

4.2.2 *Research strategy*

4.2.2.1 **Research techniques**

To realize this research, quantitative and qualitative data collection techniques and data analysis procedures were used. However, the collected data was analysed separately depending on the type of collection technique leading to what we can call a mixed method research (Saunders, et al., 2009). The main reason behind this choice resides in our willingness to bring qualitative support to our initial intuitions tested using quantitative techniques. Triangulation enables us to corroborate the results.

4.2.2.2 **Data collection**

The quantitative research technique was adopted to collect data using self-administrated online surveys. This approach enabled us to statistically evaluate the relationships between the targeted variables, and provide descriptive information useful for statistical inferences, using SPSS (v21).

The questionnaire contained two scales derived from existing literature and one scale created for our purpose (see Section 3.1). The scale measuring members' trust in the cooperative was self created while the scales measuring members' trust in directors' integrity and members' attitude toward participation were adapted from prior literature.

Of course, we preferred adopting and adapting already existing scale so as to limit the risk of finding non-internally consistent measurement scales (low Cronbach α). It should also be recalled from Section 3.1 that we considered the Likert-scale variables as continuous ones (interval) and not ordinal ones, despite their official ordinal nature (Saunders et al., 2009).

In order to safeguard the reliability of our collected data, we managed to have our questionnaire directly implemented on the website of the targeted financial cooperative. Members of the cooperative were then invited to complete the questionnaire through the official email sent by NewB (see Appendices 4.2). The anonymity of responses was clearly stated in the email, in order to optimize the internal validity of our questionnaire. It should further be stated that members' were only been given one chance to complete the survey.

The second mobilized research technique is qualitative. A semi-structured interview was carried out to collect more precise insights of directors' receptivity to participative members' claims (**H4**). To carry these out, we planned a meeting at NewB's HQ and conducted the interview in optimal conditions: separate room, without interpersonal interferences, etc.

In order to be fully transparent, we should precise that we worked at the targeted financial cooperative as an intern. During our 3 months stay, we had the chance to discuss a lot with our colleagues about the governance of banks, which was an important source of inspiration to us in the definition of our research topic. However, the risk of having the interview biased by personal relationships has been minimized, since we did not communicate the objective of the research before hand. A raw audio recording of the interview is available for anyone who wants to listen to it.

The combination of these two research techniques allowed us to combine their respective qualities and enhance the quality the findings. It further seems useful to stress that the undertaken research and analysis are mainly based on primary data. The reliance on secondary data is limited to exploration of the institutional guarantees provided by the targeted cooperative in its statutory and non-statutory documents, and the effective level of participation of members in the cooperative.

4.2.2.3 Time horizon

Our purpose is to explain specific phenomenon at a particular point in time. In this sense, according to Saunders et al., (2009), we are carrying out a cross sectional study. Given our very limited time to fulfil this research, a longitudinal study analysing changes of variables across time was quiet difficult to setup. Moreover, the literature on governance's inner-processes is a very recent one, which limits the historical sources from which we can pull insights to explain evolutionary patterns.

4.2.2.4 Credibility of research findings

The reliability of the collected data was carefully monitored along the data collection process. Both for the quantitative and the qualitative data collection techniques, we managed to minimize the risks of harmful biases. The scales that were used to assess members' attitudes and trust are provided in Appendices 3.1. Further on, obtained statistical results and the checks of their underlying assumptions are also transparently displayed in Appendices 5.1.

Moreover, since we are concerned with "attitudes" of members toward their cooperative, there is a high risk of so-called "*participant error*" (Saunders et al., 2009). Therefore, we managed to introduce a control variable (*satisperfo*) aiming at assessing members' general satisfaction with the performance of their cooperative. This control variable will be introduced in each statistical model beforehand, so as to minimize the risk of biases.

Threats of validity have also been taken into account for the design of this research. Members' of the targeted financial cooperative were interviewed right after the introduction of a first financial product, which the members were awaiting for 2 years long. Therefore, we believe the trusting attitude of members could neither be overstated nor overwhelmingly understated. It was the first materialization of the promises made by the directors, hence the assessment of their accountability by the members could therefore be rightfully derived.

Also, in order to preserve the independence of our data, we made sure each invited member only had one chance to answer the questionnaire and that they could not influence the answers of others. Further on, during the analysis, no changes or withdrawal of observations has been processed.

Last but not least, it should be clear that the model of financial cooperative detailed in the hypothesis is a very particular one. Of course, a majority of financial cooperative do not comply with its particularities. Therefore, one should be very cautious at trying to generalize the results of this paper.

4.3 Sample

The financial cooperative sector is a very diversified one (Wyman, 2014). However, our theoretical exploration has lead us to fix a set of restrictive a priori hypothesis intended to

target a model of bank likely to host sound corporate governance practices. These hypotheses considerably restricted the pool of financial cooperatives that could account for our research.

4.3.1 Introduction to NewB

The financial cooperative that will be studied in this research is called NewB. It is a financial cooperative founded in 2013 in Brussels (Belgium). Its purpose is to “*satisfy the needs and the development of social/economic activities of its members (...) by promoting the creation of a new cooperative bank in Belgium, offering simple, secure and durable services to all citizens, associations, social movements and entrepreneurs*” (derived from the legal statutes of the cooperative, see Appendices 4.3).

4.3.1.1 Fit for purpose

NewB was particularly relevant to us because it fitted within the framework of financial cooperative we have drawn in Section 3:

The financial cooperative is formally committed to only provide services to its members, excluding non-member customers (H0.1). The aim is to become the bank for any Belgian citizen willing to become member. In order to reduce the exclusion of citizens based on financial barriers to membership, NewB set the price of a share of capital at 20€. This very low price of entry is a proof of the cooperatives’ commitment to fight bank services exclusion for low income citizens.

Moreover, in order to maintain the resilience of its activities, it is statutorily committed to only develop retail-banking activities, excluding financial market activities from its portfolio (H0.2).

Among the 12 statutory values of the cooperative one finds “simplicity”, defined as the need to only develop structures and products, which the members will be able to understand through adapted communication channels and content (H0.3a,b). In order to communicate with its members, NewB mobilizes technological resources as well as local presence and produces intellectually accessible informational content.

Last but not least, NewB is statutory committed to only propose its financial services to Belgian citizens and organizations (H0.4).

4.3.1.2 Member participation

Besides these basic guarantees, member participation is considered key for NewB's success. The legal statutes as well as the internal order settlement of the cooperative strongly emphasis the importance of having the largest share of members' involved in the governance of the cooperative.

Participation is stimulated by means of 5 fundamental powers provided to the members: decision, control, interpellation, suggestion and discussion power (see Appendices 4.4 for an explanation of each of these powers). As a testimony of member participation, some key figures provided in the annual report of the cooperative are displayed in Appendices 4.7.

4.3.1.3 Board of directors

Looking at the board of directors, it operates in a unitary model composed of 14 directors among which one finds the CEO and the President of the cooperative. NewB has chosen to split the function of Chief Executive and Chairman, which is a recommendation many Codes of Corporate Governance provide.

The board as well as all other constituents of the cooperative operate under the scrutiny of the Societal Committee, which is responsible for the good application of the 12 statutory values in all its activities (see Appendices 4.5).

It seems important to stress out the fact that directors on board work on a voluntary basis. None of them, except the CEO gets compensation for the work they are delivering. This fact is non negligible for our research as it might contribute to explain why members' are prone to trust the integrity of the cooperatives' directors. As this institutional guarantee is quiet exceptional in the banking sector, the explanatory power of this factor might be a limitation in the generalizability of our study.

Further on, board members are appointed for their experience in relevant domains for the cooperative. More particularly, a balance between directors from the associative world and directors from the financial one is actively sought. In this way NewB hopes to remain as close as possible with its members while providing the guarantee to public authorities that the board contains valuable experience and skills to properly run a bank.

4.3.2 *Pilot-test*

In order to have an idea of the attractiveness and relevance of our questionnaire we launched a pilot questionnaire. This questionnaire was sent on the 5th of June 2015 to a sample of 1000 members of NewB (500 French-speaking, 500 Dutch-speaking) providing us with 134 answers (response rate: 13.4%) one week later.

This pilot questionnaire gave us precious insights. First, we had to adapt the self-made trust in the cooperative scale as its internal consistency wasn't high enough. We tested for differences between French-speaking and Dutch-speaking members and found no qualitative difference, except with regard to the response rate (>60% answers were from French-speaking members). Therefore, we decided to send the final questionnaire to French-speaking members only.

4.3.3 *Quantitative sampling*

Based on the pilot test we could estimate the minimum sample size we needed to be able to do inferential statistics. The variable of the questionnaire which displayed the most significant variance was the one assessing members' overall satisfaction with the performance of the cooperative (*satisfperfo*):

Figure 4. Standard error satisfacto

N	Valid	134
	Missing	0
Mean		4,02
Median		4,00
Std. Deviation		,730
Range		4
Minimum		1
Maximum		5

Source: SPSS 21

To compute the minimum sample size we used the formula provided in de Moerloose, Jeandrain & Swaen (2009):

$$n = [(Z\alpha) \cdot (s)/E]^2$$

n is the minimum sample size required

s : the standard deviation

E : the margin of error required

α : the confidence level required

$Z\alpha$: a constant from the normal law

The estimator of the standard deviation of the population is: $0,73 \times \left(\frac{134}{133}\right) = 0,733$ (s). I choose a confidence interval's size of 10% (E), with 5% risk of error (α). The corresponding sample (n) is: $\left(\frac{t \times s}{E}\right)^2 = \left(\frac{1,96 \times 0,733}{0,1}\right)^2 = \mathbf{206}$. Thus, we needed at least a sample of 206 participants to carry out statistically significant inferences.

$$I.C = [3,896; 4,144]$$

Three weeks later, a new questionnaire was sent by email to 1500 members of NewB. The format of the mail was the same (see Appendices 4.2) and collected **311** answers. We couldn't however use the results collected for the prior pilot-survey (134 answers) because in between the two envois of questionnaires, we adapted the scales of our questionnaires.

Chapter 5. Empirical analysis

It is time to confront our research model to empirical observations. The data obtained is composed of 311 observations collected through online surveys sent via the official NewB newsletter, as well as 1 semi-structured interview carried out at NewB's HQ. For the online survey, 1500 member citizens (category B) were invited to complete it leaving us with a participation rate of 20%.

The path we are going to follow to arrive to the conclusion starts with some descriptive statistics of both categorical and numerical variables, before moving to correlation analysis and multiple regressions in order to assess the explanatory power of our independent variables. Last but not least, we will analyse qualitative data in order to provide insights for the last hypothesis (H4) of our model.

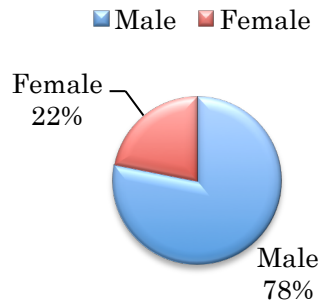
5.1 Descriptive statistics

5.1.1 *Categorical variables*

5.1.1.1 Gender of respondents

Among the 331 respondents in our sample, 243 are male (78,1%) and 68 are female (21,9%). The name this nominal variable has been given in the dataset is *gender* and it comprises two categories (man / woman) which have been recomputed in Man (=1) and Woman (=2) to realize basic analysis. T-tests were used to assess the effect of gender on other continuous variables, but no significant relationship was found.

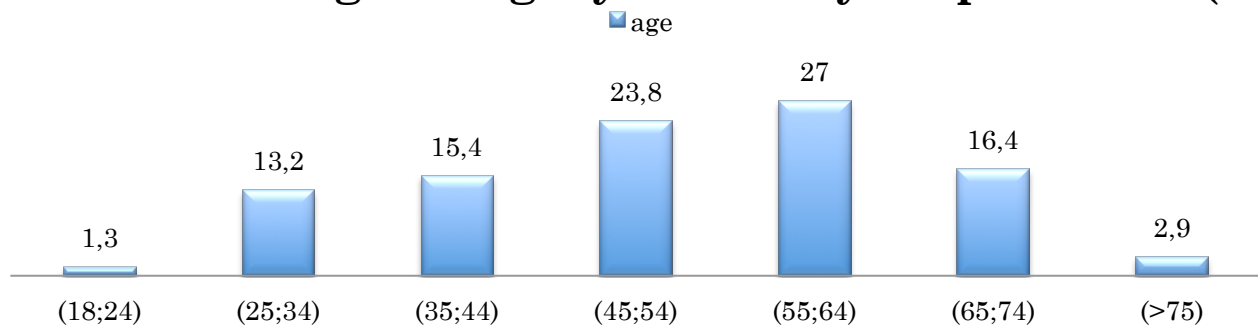
Gender of survey respondents (%)



5.1.1.2 Age of respondents

Nearly 70% of the respondents in the dataset are aged above 44 years old. This age distribution is quite proportional with the age distribution of the financial cooperative we are going to study. Further on, both t-tests with different cut points and ANOVA tests didn't provide significant proof of an effect of the variable age on the other variables of interests.

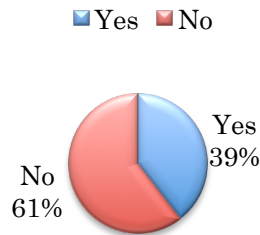
Age category of survey respondents (%)



5.1.1.3 Respondents having read the institutional guarantees

Among the 331 respondents in our sample, 123 (39,9%) have read the official documents (legal statutes and/or internal order settlement) published on the website of NewB (<https://www.newb.coop/fr/documents-officiels>).

Respondents who acknowledge the institutional guarantees (%)



Respondents who didn't read the documents (61%) were assumed to be unable to formulate a judgement about the trust they have in these documents. Therefore, they were not asked to complete the scale assessing members' trust in the institution guarantees of the cooperative (*trustinsti*).

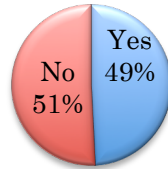
A t-test controlling the effect of this variable on members' trust in the directors of the cooperative was significant ($t = 2,395$; $df = 309$; $p\text{-value} = 0,017$). However, the Levene's test checking the homogeneity of variance was not significant ($F = 0,908$; $p\text{-value} = 0,341$) thus the result of the t-test shouldn't too much be relied upon.

5.1.1.4 Respondents having at least participated once to activities of NewB

Among the 331 respondents in our sample, 153 (49,2%) have participated at least one time to activities organized by the cooperative in order to involve its members in its governance.

Participated at least once to activities? (%)

■ Yes ■ No



However, this time respondent that didn't participate to at least one activity organized by the cooperative were invited to complete the scale assessing members' attitude toward participation to the activities (*attparticip*). The underlying rationale is that members' that never participated might express a negative attitude toward participating or a highly positive one leading them to show "blind trust" to other members' and directors' work.

Further on, since our variable *attparticip* is considered as a proxy for effective participation, we were eager to know if this was empirically supported in our sample. This point will be explored in Section 5.2.1.1.

5.1.2 Numerical variables

5.1.2.1 Aggregation of items into variables

In order to prepare the statistical tests, we recoded the items of the three multi-items scales, (i) attitude toward participation (*attparticip*), (ii) trust in integrity of directors (*trustinteg*) and (iii) trust in the cooperative (*trustinstit*), in three aggregate variables: respectively *avgattparticip*, *avgtrustinteg* and *avgtustinstit*. These aggregate variables represent the average score of each respondent on each scale and are therefore considered as continuous variables.

Table 2. Aggregated variables (MEAN)

		<i>avtrustinteg</i>	<i>avtrustinsti</i>	<i>avgattparticip</i>
N	Valid	311	123	311
	Missing	0	188	0
Mean		4,0797	3,9756	3,9859
Median		4,0000	4,0000	4,0000
Std. Deviation		,53624	,50955	,49493
Skewness		-,574	-,509	-,692
Std. Error of Skewness		,138	,218	,138
Kurtosis		1,466	2,289	1,741
Std. Error of Kurtosis		,276	,433	,276

Source: SPSS 21

The mean and median of each variable of interest are quiet similar. This allows us to assume that the distribution of observations within each variable is more or less symmetric around its mean.

To support this belief, a “rule of thumb” provided in Larson-Hall (2010) tells us that a skewness lower than 1 allows us to consider the variables as symmetrically distributed around their mean. In our case, skewnesses are lower than 1 and negative, meaning that the distribution bends to the right, toward positive values.

Moreover, the kurtosis, a measure of the concentration of the scores around their means should, according to another “rule of thumb” never exceed 7 to be normally distributed. In our sample, kurtosis varies between 1.466 and 3.190.

The results of the descriptive statistics allow us assume the distribution of the obtained aggregate variables to be normal.

5.1.2.2 Internal consistency of the scales

Let us now have a look at the internal consistency of the scales we use to test our hypothesis. The measure of internal consistency that will be applied is Cronbach α . The higher the obtained α , the less random error our scale contains thus the higher the computed variance can be attached to a true score (DeVellis, 2005; as cited in Larson-Hall, 2010).

- **Trust in institutional guarantees**

This scale is composed of 4 items and tested on 123 observations (39.5% of total respondents). This fraction is due to the fact that those people who didn't read the institutional guarantees were not asked to express their attitude toward these documents. The obtained Cronbach α is: **.863**

Table 3. Inter item correlation matrix (trustinstit)

Inter-Item Correlation Matrix				
	trustinstit01	trustinstit02	trustinstit03	trustinstit04
trustinstit01	1,000	,621	,595	,698
trustinstit02	,621	1,000	,623	,527
trustinstit03	,595	,623	1,000	,607
trustinstit04	,698	,527	,607	1,000

Source: SPSS 21

The correlation between items ranges between .527 and .698, which means the items have a rather large effect size. Moreover, the obtained Cronbach α is $>.7$ allowing us to consider the scale as fairly internally consistent.

- **Trust in board directors' integrity**

This scale is comprised of 5 items tested on a sample of 331 respondents (100% of total respondents). After inversion of Item 2 (trustinteg02) and Item 4 (trustinteg04), the obtained Cronbach α is: **.804**

Table 4. Inter item correlation matrix (trustinteg)

Inter-Item Correlation Matrix					
	trustinteg01	trustinteg02	trustinteg03	trustinteg04	trustinteg05
trustinteg01	1,000	,442	,438	,480	,495
trustinteg02	,442	1,000	,346	,517	,457
trustinteg03	,438	,346	1,000	,395	,452
trustinteg04	,480	,517	,395	1,000	,487
trustinteg05	,495	,457	,452	,487	1,000

Source: SPSS 21

The correlation between each item varies between .346 and .495, giving us a medium effect size. The obtained Cronbach α is $>.7$ thus is quiet reliable.

- **Members' perception of their participation in the governance of the cooperative**

This scale is composed of 5 items and tested on a sample of 311 observations (100% of total respondents). The obtained Cronbach α is: **.784**

Table 5. Inter item correlation matrix (attparticip)

Inter-Item Correlation Matrix					
	attparticip01	attparticip02	attparticip03	attparticip04	attparticip05
attparticip01	1,000	,437	,277	,404	,441
attparticip02	,437	1,000	,250	,417	,582
attparticip03	,277	,250	1,000	,466	,364
attparticip04	,404	,417	,466	1,000	,562
attparticip05	,441	,582	,364	,562	1,000

Source: SPSS 21

The correlation between items ranges between .250 and .582 (medium effect size). The obtained Cronbach α is $>.7$ allowing us to consider the scale as fairly internally consistent.

5.1.2.3 Assumptions for parametric tests

In order to be able to use parametric statistic tests, we need to assess whether our data fits within the framework of assumptions (Saunders et al., 2009). The assumptions we test are (i) normality of the distribution of the sample, (ii) multicollinearity of the sample and (iii) homogeneity of variance in sample. The verification of each assumption will be referenced in

the analysis and developed in the Appendices. Independence of our dataset is safeguard since (i) respondents couldn't affect the answers of each other, (ii) each respondent was only given one chance to complete the survey and (iii) no observations have been erased during our analysis.

5.2 Analysis

5.2.1 Quantitative relationships

5.2.1.1 T-test

Does attitude toward participating change depending on prior participation experience?

The first of our concerns is to assess whether the continuous variable *avgattparticip*, measuring the average attitude of respondents toward participation, is a good proxy of the categorical variable measuring effective participation (*participonce*). Since we are only testing two groups (1: those who participated at least once; 2: those who never participated) we are able to use a t-test on independent samples.

H₀: There is no significant difference of attitude toward participation between those who participated at least once and those who never participated
H₁: There is a significant difference

RH₀

The statistical test is significant ($t = 5,141$; $p\text{-value} = 0.000$), allowing us to reject H_0 , that average respondents' attitude toward participating is not significantly different between those who participate and those who don't, with a chance of being mistaken of $\alpha = 5\%$. The assumptions are controlled in Appendices 5.1.1.

This first result provides support for the effectiveness of studying attitudes as effective proxies for behavior.

5.2.1.2 Correlations

A first overview of the correlations between the main continuous variables (*avgtrustinteg*, *avgtrustinsti*, *avgattparticip*, *satisperfo*) is provided in the following table:

Table 6. Correlations

Correlations					
		avgtrustinteg	avgtrustinsti	avgattparticip	satisperfo
avgtrustinteg	Pearson Correlation	1	,589**	,373**	,634**
	Sig. (2-tailed)		,000	,000	,000
	N	311	123	311	311
avgtrustinsti	Pearson Correlation	,589**	1	,417**	,490**
	Sig. (2-tailed)	,000		,000	,000
	N	123	123	123	123
avgattparticip	Pearson Correlation	,373**	,417**	1	,310**
	Sig. (2-tailed)	,000	,000		,000
	N	311	123	311	311
satisperfo	Pearson Correlation	,634**	,490**	,310**	1
	Sig. (2-tailed)	,000	,000	,000	
	N	311	123	311	311

** . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 21

We find 6 positive and significant numeric correlations. However, since we are interested in the relationships between the three first variables (*avgtrustinteg*, *avgtrustinsti*, *avgattparticip*), we would like to control the effect of *satisperfo*. Therefore, we process a partial correlation using SPSS. The resulting correlations are provided in the following table:

Table 7. Partial correlations

Correlations					
Control Variables			avgtrustinteg	avgtrustinsti	avgattparticip
satisperfo	avgtrustinteg	Correlation	1,000	,426	,289
		Significance (2-tailed)	.	,000	,001
		df	0	120	120
	avgtrustinsti	Correlation	,426	1,000	,357
		Significance (2-tailed)	,000	.	,000
		df	120	0	120
	avgattparticip	Correlation	,289	,357	1,000
		Significance (2-tailed)	,001	,000	.
		df	120	120	0

Source: SPSS 21

The partial correlation controlling for satisfaction in cooperatives' performance (*satisperfo*) reduces the size of the correlations but these remain positive and significant. The exploration of the linearity of our correlations as well as their distribution and variance is provided in Appendices 5.1.2. We used unstandardized residuals to compute them.

Table 7 provides us with significant support for H1, as we clearly identify a correlation between trust in directors' integrity and trust in the cooperative. This relationship is assumed to be symmetric and implies that the institutional framework and the reputation of board directors are mutually reinforcing the trust inspired to members.

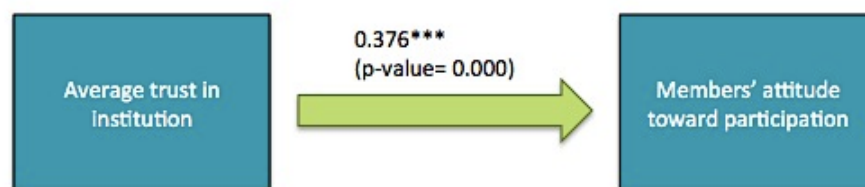
Nevertheless, correlation cannot explain causality (Larson-Hall, 2010). Therefore, in the next sections we will statistically analyse the explanatory power of so-called "independent" variables (*avgtrustinsti* and *avgtrustinteg*) on one dependent variable (*avgattparticip*).

5.2.1.3 Regressions

In this section we will explore the relationship the two trust scales hold with members' attitude toward participation in the governance of their cooperative (H2 & H3).

- *H2: Trust in the cooperative and members' attitude toward participation*

Figure 5. Regression (*avgtrustinsti* → *avgattparticip*)



Source: SPSS 21

To test if members' trust in the cooperative (*avgtrustinsti*) is able to explain members' attitude toward participation we use a sequential regression model controlling for the effect of *satisperfo*.

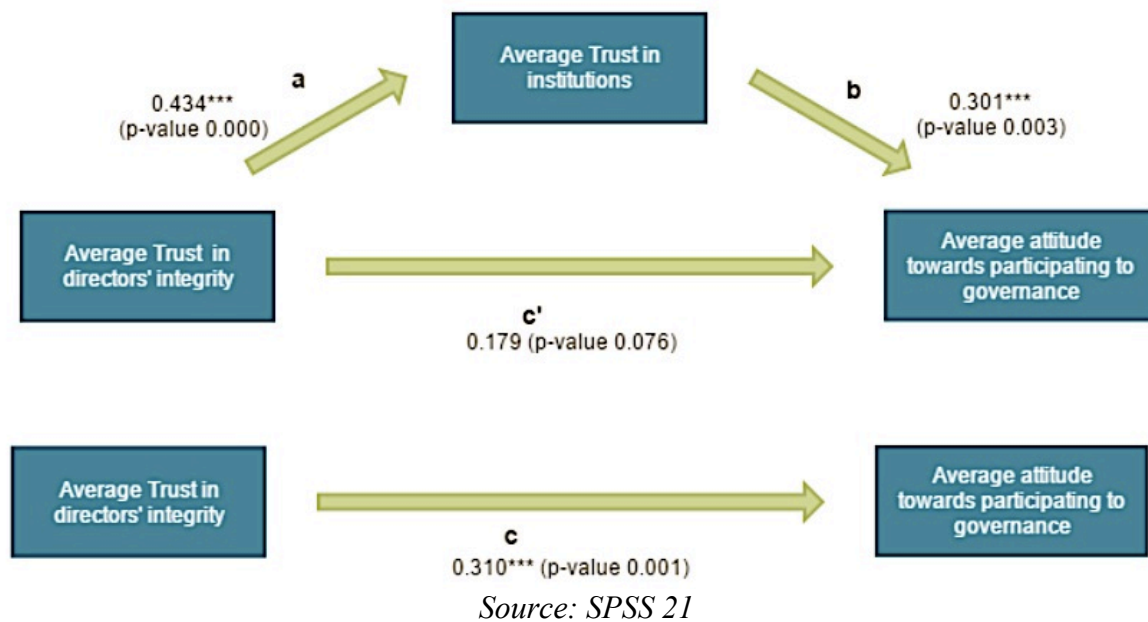
The model we obtain explains 16.1% of members' attitude toward participation (p-value= 0.000) while *avgtrustinstit* explains 12.1% of it when *satisperfo* is introduced in the first place (see Appendices 5.2.1). The obtained regression equation is the following:

$$\text{avgattparticip} = 2,397 + 0,029 * \text{satisperfo} + 0,376 * \text{avgtrustinstit}$$

Assumptions are controlled in Appendices 5.2.1. We find neither signs of outliers nor risks of multicollinearity. However, the homogeneity of variance assumption seems to be violated.

- *H3: Trust in directors and members' attitude toward participation to the governance of the cooperative*

Figure 6. Regression with mediating effect of *avgtrustinstit*



Time has come to explore the explanatory power of members' trust in directors' integrity on members' participation in the governance of their cooperative. In doing so, we will assess the mediating power of *avgtrustinstit* in the relationship between *agttrustinteg* and *avgattparticip*. After having controlled for the effect of *satisperfo*, we process a sequential regression by adding the independent variable first (*avgtrustinteg*) and introducing the

mediating variable (*avgtrustinstit*) in a second step. The obtained regression model is displayed in Appendices 5.2.2.

We obtain a full mediating power of *avgtrustinstit* as it renders the relationship between *avgtrustinteg* and *avgattparticip* insignificant (p-value>.05) when introducing the mediating variable to explain the dependent variable. The four assumptions for a mediating effect, following the methodology provided by Delobbe (n.d), are met:

1. The independent variable (*avgtrustinteg*) explains a significant part of the variance of the mediating variable (*avgtrustinstit*): **path a**
2. The independent variable (*avgtrustinteg*) explains a significant part of the variance of the dependent variable (*avgattparticip*): **path c**
3. The mediating variable (*avgtrustinstit*) explains a significant part of the variance of the dependent variable (*avgattparticip*) when statistically controlling for the independent variable (*avgtrustinteg*): **path b**
4. The effect of the independent variable on the dependent variable diminishes considerably when the mediating variable is introduced along with the independent variable to explain the dependent variable: **path c'**

The model we obtain explains 17.6% of the total variance of *avgattparticip* and the regression equation is the following:

$$\begin{aligned} \text{avgattparticip} \\ = 2,217 - 0,035 * \text{satisperfo} + 0,179 * \text{avgtrustinteg} + 0,301 \\ * \text{avgtrustinstit} \end{aligned}$$

The assumptions for the regressions are controlled in Appendices 5.2.2. While we find no outliers and no multicollinearity, we are unable to surely say the variance is homogeneously distributed.

5.2.2 Qualitative analysis

5.2.2.1 Semi-structured interview

The interview we carried out with Marc Bontemps (M.B), Secretary of the Board of directors of NewB provided us with some very interesting insights. Please refer to Appendices 5.3.1 for the full transcription of the interview.

1. *M.B on the a priori hypothesis we set to target a model of financial cooperative likely to host sound corporate governance practices:*

First, for NewB it is of primary importance to become a bank held by and working for Belgian citizens. However, the cooperative insists on providing services to members only (H0.1). To conciliate the two, they fixed the price of a share of ownership at 20€ so as to give every citizen the opportunity to become member, regardless of his socioeconomic background. By putting the financial barriers to access membership at a very low level, NewB shows its commitment to fight low-income peoples' exclusion from banking services.

Secondly, the fact that NewB is grounded in the real economy, is a key argument for the members: *“one of the reasons why members get interested in the project, is that the cooperative reconnects with the essence of the banking activity”* (H0.2). Risky and opaque products developed by investor-owned banks over the last decades have considerably contributed to divert banks from serving their customers and society as a whole. And it has done in two ways:

1. These unregulated products were designed to enrich some influent shareholders and customers at the expense of the interests of the wide majority of savers. Indeed, these stakeholders while grabbing being the only beneficiaries of the profits made through these activities were not sufficiently exposed to the risks of loosing. Instead, client depositors backed by State deposit guarantees, thus citizens would pay the bill in the case of a crash. These huge moral hazard incentives were at the origin of the last financial crisis.

2. These products were a source of increased opacity in banks' balance sheet, which considerably reduced regulators', clients and even shareholders' ability to control and monitor the activities of the bank. When given incentives to increased risk taking in a situation of high opacity, executives and managers were inclined to cheat and expropriate clients.

Thirdly, it is a real challenge for NewB to make the communication content intellectually accessible to all members. The main challenge is that banking "*is an intensively regulated profession*", and the legalistic approach makes it hard to succeed in this mission. However, the cooperative managed to setup a "lecture committee" composed of members with language skills in order to make the content accessible for everyone while remaining close to the truth (H0.3a). This lecture committee composed of members' further supports members' trust in the communications coming from the cooperative.

Further on, the cooperative concretely mobilizes two channels to get in touch with their members: (i) technology and (ii) real presence in towns. The aim of the cooperative is to be as close as possible with its members, therefore "*the ambition is to be present in each town in Belgium by electing (a network of local, regional and territorial) ambassadors.*" (H0.3b). Local presence is thus not materialized through classical branches. Instead, motivated members are invited to become ambassadors of NewB with the aim to animate the local cooperative life. They do so by renting a place in their town to host debates, presentations and meetings with members' and NewB officials.

2. M.B on the hypothesis of our research model that have been tested quantitatively

The institutional guarantees provided by NewB are assumed to favour participation of members (H2). M.B provides support for this assumption by telling us that focusing on retail banking is key because "*members want to know and understand what is being done with their money.*" This willingness to know and to understand can favour members' involvement in the decision process of the cooperative. The success of the campaign called "La voix de votre épargne" is a supporting proof of this fact (see Appendices 4.6 for more info on this campaign NewB has launched in November 2014).

Anyway, member engagement cannot be materialized without effective communication content and channels, which is why MB claims that NewB “*thrives to become a champion of communication, transparency and simplicity*”. In this perspective, NewB’s focus on retail banking fosters H0.3b (communication channels) as it enables the cooperative to be closer to its members and create social ties with them. The foundations in the local economy and the communication between members really seem to be key for effective member participation.

3. *M.B on the assumption that board directors accountability could be enhanced whenever members’ motivation to participate is more than a controlling behaviour*

The last hypothesis for which our paper aims to provide fragments of answers, is to assess whether members’ participation to the governance of the cooperative, when rooted in prior trust thus not only controlling behaviour, favours board of directors’ accountability toward members.

It has to be recalled from the methodology, that NewB offers a very particular set of guarantees, which are quite unique. Those :

Firstly, the directors on board sit in a unitary board but are split between those directors coming out from the associative world and those with experience in the financial sector. According to M.B, this model “*contributes to a dynamic and an interaction framework which is more attentive to the collective*”. In other words, it acts as a shield against managerial opportunism. The presence of directors from the associative world can be perceived as the solution NewB has found to ensure that both the societal goals and the financial targets of the cooperative are met.

Secondly, except for the CEO, all directors work on a voluntary basis, which according to M.B “*adds credibility to their engagement in the cooperative*”. This quite controversial and absolutely unusual feature within the banking sector certainly has an impact on the level of trust members have in their directors’ integrity. While the sustainability of such a mechanism deserves further research, we should acknowledge, that up to this day, this feature of NewB limits the generalizability of our results, since it is possible that no such trust in directors could ever be found in any other cooperative bank.

Within this context, M.B is lead to claim: *“an active participation of members contributes to create responsibility (accountability) of the administrators, because it makes the relationship between owner-directors less anonymous.”*

Behind the word “active”, one should understand “real involvement” into the democratic governance of the cooperative. Further on, making the relationship “less anonymous” could be interpreted as making it more human, less mechanistic and impersonal. Indeed, when effectively interacting with each other in specific contexts, people tend to be more susceptible to reputational issues than when there is a large distance separating them. Also, following Birchall (2004) model presented in the literature review, this participation is likely to rise shared values, shared goals and a deep sense of community. These collective aspects are completely overseen by the agency theory and are at the core of the successful development of financial cooperatives.

This sentence provides us with clear support for the last hypothesis we have included (H4) in our research model. As members actively engage in the cooperative, their relationship with their representatives is less distant and formal which allows for social ties and reciprocity to arise.

While we recognize this single interview to be insufficient to bring real “proof”, we believe it to be a positive signal that further exploration in this direction should be undertaken. If accountability of board directors can be raised through directors’ feeling of positive owner engagement in the governance, and if this engagement can be raised through the trust the institutional settings inspire to the members, this would invite us to further explore the specific institutional guarantees that would foster members’ positive engagement in the cooperative.

5.3 Implications

First of all, we found that members' attitude toward participation is a good proxy for members' effective participation in our sample. This brings support to the relevancy of using attitude and perception scales to predict effective behaviour.

The first hypothesis (H1) of our research model, namely that members' trust in the cooperative is correlated with members' trust in directors' integrity, can be assumed to be verified in our sample. We found a positive and significant partial correlation ($r = 0.426$; $p\text{-value} = 0.000$) while controlling for the effect of members' overall satisfaction with the performance of the cooperative.

The second hypothesis (H2) of our research model has also given positive results. Indeed, we found a positive and significant ($R^2 = .161$) explanatory power of members' trust in the cooperative on members' attitude toward participation.

The third hypothesis (H3) can also be confirmed in our sample since we find a positive and significant ($R^2 = .176$) explanatory power of members' trust in directors on members' attitude toward participation. More specifically, we find that members' trust in the institution has a full positive mediating effect on this relationship.

These results support our belief that there are specific institutional guarantees provided by the financial cooperative that allow for increased member participation. This participation is however not rooted in distrust. Instead, members' are likely to participate because they believe in the good faith of these guarantees. This assessment is based on the formal commitment conveyed in the legal status and internal order settlement, and on the extent through which directors on board ensure the good application of the principles and values underpinning these guarantees.

This participation rooted in prior trust is likely to give birth to members' feeling of affiliation to a community of citizens and organizations sharing common values and goals (Birchall, 2004). Such a pro-organizational participation is likely to promote accountability on the board because, using the words of Marc Bontemps, "*it makes the relationship less*

anonymous”. Indeed, it fosters social ties likely to affect the individual evaluation of the pros and cons of acting opportunistically by adding collective rationales.

Therefore, we argue that it is of uttermost importance for ensuring sound corporate governance in financial cooperatives to set the structural conditions likely to raise member engagement rooted in prior trust. We believe it to be likely to enhance accountability and therefore nurturing the virtuous cycle depicted in Section 3.3 (Figure 3).

These results shed light on the usefulness of using alternative theoretical lenses to corporate governance, since we have found that it is not enough to consider individual rational thinking to explain participation and accountability. In this perspective, our results suggest that collective thinking and behaviour provides better outcomes within trust-raising institutional contexts.

Conclusion

This long journey throughout a whole year of intriguing and passionate readings, discussions and reflexions finally comes to an end.

Summary of the study

To summarize the undertaken study, we could make use of the metaphor of a funnel. A funnel that lead us to gradually precise the scope of our research, down to the roots of the theories which have contributed to shape corporate governance practices around the world.

We started with the exploration of central theoretical perspectives in the field of corporate governance. Among these, we found the agency theory to be largely predominant in academic literature. Since we were keen to get a plurality of insights, we also introduced the stewardship theory (in the core of this paper) and the resource dependency theory (in the appendices). With these theoretical tools on hand, we could jump into the study of the governance system of European banks.

Soon enough, it became clear to us that the mechanisms prescribed by the agency theory were inefficient at tackling the pressing issues structurally anchored in the actual investor-owned model of bank. Instead of advocating for structural changes in this model, we turned our attention to another type of bank which had proven to be far more resilient to the financial crisis than the traditional one. Financial cooperatives became the target of our research.

Financial cooperatives' core institutional guarantees were first described and analysed in the light of their governance particularities. Once done, we recognized this model to be structurally more likely to promote sound corporate governance in the banking sector.

However, in order to make this claim more robust, we set a series of a priori assumptions aimed at defining the model of financial cooperative: the financial cooperative should be fully dedicated to its members, focusing only on retail banking activities, putting

an emphasis on designing communication channels and informational content adapted to foster member participation, and ideally restricted to its national territory.

Within this model, we could then explore one of the most central relationships hosted within the firm: the owner-director relationship. During our brief experience as intern at the financial cooperative studied in this paper, we had the impression that one of the root assumptions of agency theory, namely that of intrinsic opportunism of directors, failed at describing the core of the relationship bounding cooperative members (owners) with their representatives (board directors).

Indeed, participation of members to the activities of the cooperative did not seem to be motivated by a controlling behaviour and board directors and executives, while enjoying a lot of discretion, seemed to be far from raising concerns of self-interested behaviour. The main paradigm in corporate governance could not help us at explaining this combination of facts.

Therefore, we moved beyond the agency framework to empirically study the possibility of member participation grounded in prior trust in board directors' integrity and the cooperative institution. To do so, we tested the mediating effect of members' trust in the cooperative on the relationship between members' trust in board directors and members' participation. Instead of considering "blind trust", we looked at cognitive trust able to foster members' political involvement in the democratic governance of the cooperative.

The results from our statistical analysis enabled us to confirm a positive mediating effect of members' trust in the cooperative on the relationship between members' trust in directors and members' participation to the cooperative. This model allowed us to explain 17.6% of members' participation to the activities organized by the cooperative.

Of course, participation grounded in control of managers' performance is also present. But our research has lead us to identify other sources of participation which considerably depart from the classical rationales provided by agency theorists.

Once statistically tested, we assumed this type of participation, rooted in prior trust, to be more likely to foster directors' accountability toward members. Indeed, in the presence of

strong social networks created within a democratic system hosting active members, directors' opportunistic behaviour is assumed to be less likely to take place. A qualitative semi-structured interview provided us with positive support for this assumption.

Last but not least, if this model we put forward were useful for anybody, it would mean that trust or opportunism isn't given ex-ante, but created and supported across time through repeated accountability of directors and within specific institutional contexts. This institutional setting NewB has put forward would promote active participation of members' to the governance of their cooperative bank and in fine, increased accountability of board directors.

Theoretical implications

This research has forced us to go beyond the classical framework proposed by agency theorists by spotting the relative inadequacy of one of its core assumptions, in the very particular context of a financial cooperative. Indeed, we found evidence of trusting behaviour of members leading to members' participation in the governance of their cooperative. This type of participation is found to be a driver of higher accountability of banks' directors. These findings call for theoretical pluralism in the field of corporate governance as the main paradigm fails at describing these mechanisms.

Secondly, we provided evidence that members' attitude toward participation is a good proxy for members' effective participation in the governance of their cooperative. Exploring peoples' perceptions and attitudes seems to be a high potential avenue for future research in the field of corporate governance.

Thirdly, we contributed to provide insights into the corporate governance of banks, which has received very little academic attention up to this day. One of the focal point of this paper has been to show the relative inadequacy of classical agency prescriptions in the very particular case of banks.

Practical implications

Managerially speaking, the results of this paper invite managers and board of directors to spend attention to the trustworthiness they inspire to their colleagues and stakeholders. Once created and sustained, trust is able to trigger positive social and economic outcomes likely to outpace the results provided by general distrust and control mechanisms. Indeed, this research has highlighted the positive effect of trust on peoples' willingness to participate to activities organized by the group of which they are part. This active participation is further likely to promote long-term and stable relationships between principals and their stewards.

The societal implications of these findings support the need to create and adapt structures enabling trusting and participative relationships to arise in the banking sector. Today's institutional settings of investor-owned banks promote excessive risk-taking and therefore lack of accountability. We believe a specific model of financial cooperative to be more likely to promote sustainable development in our societies. Moreover, this model allows for increased owner political participation in the governance of their firm, which in turn promotes improved citizenship skills, democratic values and justice.

Limitations and future research

First of all, as stated in the methodology, one should be very careful at generalizing the statistical results obtained in this paper. Indeed, the targeted financial cooperative displays very specific governance features (see Section 4.3.1) making it hazardous to replicate it to any other cooperative bank.

Also, while we asked members' to assess the trustworthiness of the "institutional guarantees" provided by the cooperative, we considered it as a group of guarantees, without relating the influence of each specific guarantee taken separately.

Future research should focus on exploring the impact of specific institutional guarantees provided by cooperative banks on the participation of owners in the governance of their bank and the accountability provided by board directors. Within this structure of guarantees, further research should identify the key inner processes at stake within the board itself, by looking at interaction regimes and other psycho-sociological dimensions, which have largely been overlooked by today's literature in governance (except for a rising stream called the behavioural perspective of corporate governance).

Moreover, contextual parameters, such as the fact that NewB has arisen as a reaction to the financial crisis of 2007, are not included in this analysis. It seems however reasonable to expect that such parameters significantly affect the trust members' put into the cooperative. If we were living in a society where banks were examples of good governance, peoples' assessment of the trustworthiness of directors' and the cooperative could notably be re-evaluated.

Finally, trust was here considered at one point in time. Longitudinal research considering the evolution of trust across time could provide interesting insights on the factors influencing it, and test for its relationship with member participation overtime.

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Appendices

Part I

1.1 The rise of corporations

Corporations, unlike their recent ubiquity in our globalized economies, have existed long before the industrial period started. Baskin & Miranti trace back the foundation of corporations to the East and the West India Company chartered by Elizabeth I in the early 17th century (as cited in Hermalin, 2005).

The EIC is considered as the first joint-stock enterprise in the world, as it laid the foundations for the great overseas trading activities of the British, the French and the Dutch empires that developed during the 18th century (Tricker, 2015). These incorporated companies were the first to provide *limited liability* to all the stakeholders of the venture (investors and directors) because no one would otherwise accept to bear the very high risks tight to these colonial trading missions (Lefebvre–Teillard, 1985; Tricker, 2015). This limited liability was however restricted to those corporations formally authorized by the government.

This, sometimes hostile, economic interventionism of governments could be explained by the fear of speculation and abuses of the managers in the presence of high capital accumulation and anonymous association. Adam Smith (1776) wrote about the abusive tendencies of joint stock companies, and their inability to compete against “private adventurers” in the absence of grants of exclusive privilege (as cited in Herman, 1985).

However, because of multiplying pressures from both public and private actors to let corporations meet the pressing needs raised by new technological inventions, the governmental authorization was abandoned in France in 1867 (Lefebvre–Teillard, 1985). According to Lee & Newby (1983), this legislative innovation triggered Europe’s Great Transformation stage of the 19th century, a period of rapid capitalist industrialization (as cited in Corrigan, 1997). For Lefebvre–Teillard (1985), this legal change was the foundation for the soar of liberalism and the rise of corporations.

1.2 Definition of “governance”

Governance finds its roots in the Greek verb ‘*kubernân*’ which literally means: *to row a boat* (Service de traduction de la Commission Européenne, no date mentioned). It entails notions such as direction, leadership and power and how it is exercised (World Bank, 1992).

The Canadian Institute of Governance (2002) provides a process-based definition of governance:

“Governance is the process whereby societies or organizations make important decisions, determine whom they involve and how they render account”

Canada Institute of Governance, 2002

Daily, Dalton and Cannella (2003), in the introduction of their famous paper, further develop this definition by asserting governance as to do with (1) the determination of the uses to which organizational resources are deployed and (2) the resolution of the several conflicts of interests inhabiting organizations.

In the organizational realm, it is important to make a clear distinction between governance of firms and the way these are managed (Tricker, 2015, p. 43). According to this author, these two concepts can be distinguished along the personalization of responsibilities. While “management” is structured as an internal hierarchical scheme of downward responsibilities and upward accountability requirements, “governance” is structured as body, which is collectively responsible for (i) determining the uses to which organizational resources will be deployed and the resolution of multiple, often conflicting, internal and external stakeholders’ interests (Daily, Dalton and Cannella, 2003). The board of directors or the General Assembly of companies are examples of such governing bodies.

1.3 Corporate governance systems

Shleifer and Vishny (1997) point out to the fact that corporate governance mechanisms are economic and legal institutions shaped through the political process. A process, which has contributed to tailor corporations’ ownership structures in very different

ways around the world (Roe, 1993; La Porta et al., 1999). La Porta et al. (1999) show the impact of a country's legal roots on the extent of concentration of corporations' ownership structures. Some researches have gone even further by asserting that governance characteristics also depend on the type of industry or even company one is looking at (see Huse and Landström, 2002).

These last decades, Europe has gone through a series of regulatory reforms in the field of corporate governance aiming at improving the monitoring ability of board of directors (Desender, 2009). The intention to better the monitoring ability rhymes with the aim of limiting controlling shareholders' influence and protecting the interests of small and diffused minority shareholders (Brooks & Ivaschenko, 2008). In other words, these reforms translated a political willingness to align European corporate governance with the Anglo Saxon corporate governance model based on highly liquid capital markets and the protection of small and diffused shareholders. Brooks and Ivaschenko's research (2008) relate the successful operation of European authorities to limit controlling shareholders' influence by looking at the drop down of voting premiums.

The following table provides you with an overview of the different corporate governance systems around the world and the main characteristics on which they can be distinguished (source: PWP presentation "Corporate governance" course, Lund University, 2014):

Table 8. Corporate governance systems around the world

Feature	Anglo saxon	Germanic	Latin	Japanese
Orientation	Market-oriented	Market- and network-oriented	Network-oriented	Network-oriented
<i>Representative countries</i>	UK, Canada, USA, Australia, New Zealand	Germany, Netherlands, Scandinavia, Austria	France, Italy	Belgium, Spain, Japan, Brazil, Argentina
<i>Prevailing concept of the firm</i>	Instrumental (as a means to create shareholder wealth)	Institutional (an autonomous coalition Institutional	Institutional	Institutional

	Institutional of stakeholders)			
<i>The board system</i>	One-tier	Two-tier (Germany, Austria) One tier (Scand., Netherlands)	Optional	One-tier
<i>Main stakeholder (exert influence on management decisions)</i>	Shareholders (but low real power)	Industrial banks (mainly in Germany)	Financial holdings, the government, families	City banks, financial institutions, employees
<i>Importance of stock and bond markets</i>	High	Moderate to high	Low to moderate	High
<i>Market for corporate control?</i>	Yes	No	No	No
<i>Ownership concentration</i>	Low	Moderate to high	High	Low to moderate
<i>Compensation based on performance</i>	High	Low	Moderate	Low
<i>Time-horizon of economic relationships</i>	Short-termism	Long-termism	Long-termism	Long-termism
<i>Strengths</i>	Dynamic market orientation, fluid capital, internationalization	Long-term industrial strategy, very stable capital, robust governance		Very long-term ind. strat, stable capital, major overseas investment
<i>Weaknesses</i>	Volatile, short-termism, inadequate	Internat. difficult, lack of flexibility, new industries lack capital		Financial speculation, secretive, weak accountability

1.4 Definitions of “corporate governance”

Four definitions have been introduced in the paper.

1° Broad scope and task oriented definition

Corporate governance:

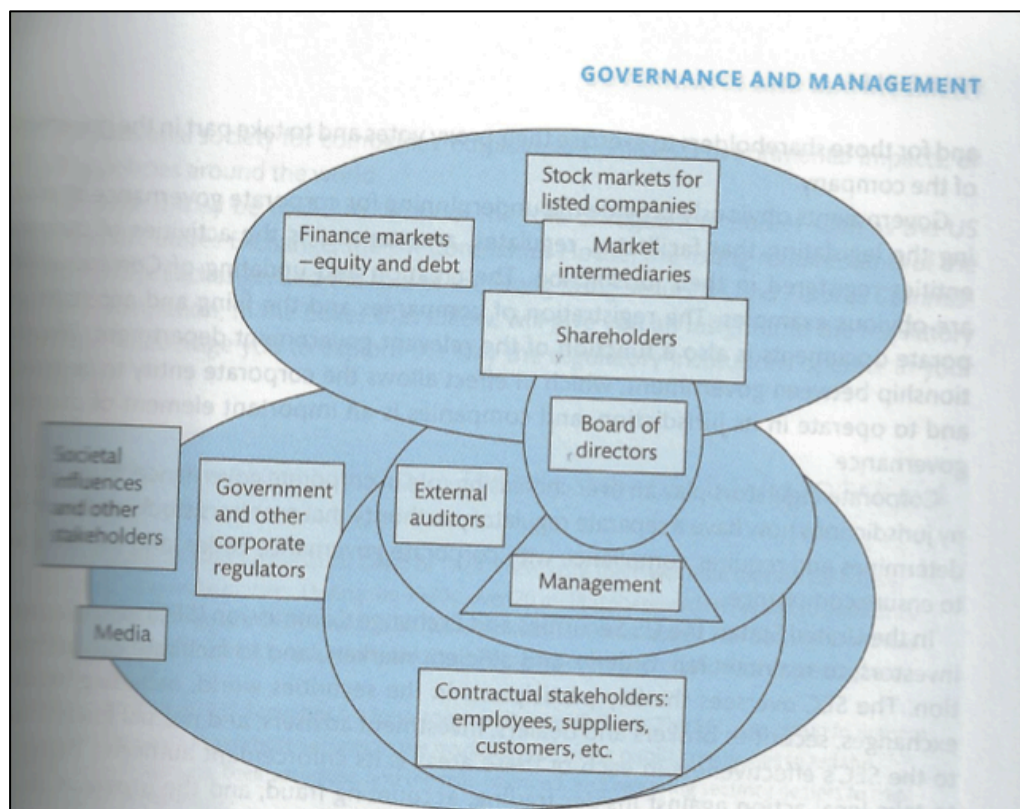
“...is the system by which companies are directed and controlled.”

Cadbury Committee, 1992.

This is probably the most widely adopted definition of corporate governance. It was provided by the Cadbury Committee’s report on the “Financial Aspects of Corporate Governance” in 1992.

This definition underlines the systemic nature of governance, inviting us to think of it as place for multiple, sometimes non-linear interactions between different actors. Tricker’s model offers a synthetic view of the main actors in a corporate governance system (see figure ‘scope of governance’ here below) that cooperate and counteract together, which ultimately influences the performance of the corporation.

Figure 7. The scope of corporate governance



Source: Tricker (2015, p. 33)

Furthermore, the definition stresses out two key concepts residing at the core of corporate governance. Direction, which is concerned with designing and implementing

strategic and operational targets and processes that enable the company to reach specific objectives. Control deals with the mechanisms that allow contractual and non-contractual parties to monitor and supervise a firm's activity. It seems useful to stress out (linkage with agency theory) that direction is given the same weight as control.

Hence, this definition can be categorized in the “*broad*” and “*task oriented*” category of definitions.

During the bissextile year 2004, the Organization for Economic Cooperation and Development (OECD) released its internationally adopted “*Principles of Corporate Governance*”. In this very report, a definition similar to the one of the Cadbury's Committee but more precise on the content of the relationships and the concepts of direction and control is provided.

Corporate governance

“...involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means for attaining those objectives and monitoring performance are determined.”

OECD, 2004.

2° Narrow scope and objective oriented definition

In 1997, Shleifer and Vishny published a literature review on corporate governance starting with these words:

Corporate governance:

“... deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investments.”

Shleifer and Vishny, 1997.

This definition very much reflects the Anglo-Saxon ideology in which the shareholder-primacy principle is king. Indeed, corporate governance is here perceived for its instrumental use, as a mean for ensuring that suppliers of finance, exclusively or in priority, get their interest fulfilled. Suppliers of finance also include debt financiers. Other stakeholders such as employees or customers are left out of the picture. It also assumes that suppliers of finance prioritize financial return over other investment objectives.

Moreover, this definition focuses on the final purpose of corporate governance rather than the tasks it entails. Hence, this definition can be categorized in the “*narrow*” and “*goal oriented*” box.

3° Broad scope and objective oriented definition

Corporate governance:

“ is a system of structures and processes to secure the economic viability as well as the legitimacy of the corporation.”

Neubauer & Lank, 1998.

This definition stresses out two *goals* for the corporate governance system. The first (*economic viability*) refers to what Shleifer and Vishny (1997) point to as the need to compensate the risks taken by investors. The second (*legitimacy*) invites us to think of CG as entailing a broader scope, including stakeholders which might affect the legitimacy of the corporation.

4° Narrow scope and process oriented definition**Corporate governance:**

“ is a system of structures and processes that arises as a result of the interaction between the owners, the board of directors and the top management team in directing and controlling the firm”

Nordqvist & Melin (2002).

Finally, we find here a definition, which is focused on the tasks of corporate governance (direction and control) but only conceives the relationships among owners (typically considered as shareholders) and managers (board of directors and top management).

1.5 Definition of “ownership”

Luckily, my interest initially went to the governance of financial institutions, such as banks or insurance companies. These institutions represent very particular governance systems (Adams and Mehran, 2003), especially because of their abnormally leveraged financial structure (Macey and O’Hara, 2003). Initially thinking through the agency lens (see Section 1.5.1), Fama and Jensen (1983) claimed the principals are the financiers who could have a claim on the net cash flows of the firm. Shleifer and Vishny (1996) further defended this

claim by defining corporate governance as “the ways through which suppliers of finance assure themselves of getting a return on their investment”.

Consequently, and especially in the case of financial institutions, ownership should at least not only be granted to shareholders, but also to the creditors of the institutions (client depositors, government credits, etc.) (Macey and O’Hara, 2003). They represent more than 90% of the supply of finance to the firm, which legitimates the role they should play in the governance of such organizations.

Unfortunately, neither the academic literature adopting the agency perspective nor legal institutions have promoted comparable *ex ante* governance rights as for shareholders, such as voting rights on the distribution of dividends, on the appointment of directors, etc. Even worse, regulation has taken care for collateral effects such as creditors’ free-riding problem, managers’ excessive risk-taking and a risk shift toward public authorities and ultimately citizens (Levine, 2003; Macey and O’Hara, 2003; Adams and Mehran, 2003; Ciancanelli and Reyes Gonzalez, 2000).

As my intellectual interest goes to the study of the motivations of owners and managers/directors to cooperate together, I picked a type of financial institution where the moral hazard between legitimate owners was drastically reduced, namely financial cooperatives. Indeed, in these particular institutions, and under some restrictive assumptions, client depositors get their say through their membership in the capital structure of the cooperative.

Consequently, in this paper, I can adopt a perspective of ownership, which is limited to the capital owners of the firm, even if I do not personally subscribe to this perspective for more classic types of corporations.

1.6 Resource dependency theoretical lens

Unlike agency’s deductive approach, the resource dependency theory has arisen from empirical research, i.e inductively (Hirsch et al., 1987). It has been very influential in sociology, strategy and organization theory (Huse, 2005). The central subject of this theory is

the board of directors, because it enables the organizations to cope with external interdependencies and uncertainty (Pfeffer, 1972; Pfeffer & Salancik, 1978). This perspective of the boards' role strongly contrasts with the exclusive controlling role assigned by agency theorists (Hillman and Dalziel, 2003).

The Resource dependency perspective

Organizations evolve within uncertain and sometimes hostile environments. When these interdependencies have an impact on the organization's long-term viability, it is rational for its members to try to deal with them (Pfeffer, 1972).

The way firms do it is by internalizing valuable resources in the firm so as to diminish uncertainty and lower transaction costs (Williamson, 1984, as cited in Desender, 2009).

Consequently, it can be asserted that much like under the agency perspective, resource dependency theorists are concerned with the conditions under which organizations survive.

Characteristics of the theory

Organizations will naturally attempt to manage its interdependences with the environment in order to reduce uncertainty and enhance the company's performance (Pfeffer, 1972; Pfeffer & Salancik, 1978).

A privileged vehicle for doing so is the firms' board of directors (Pfeffer, 1972). Board directors are perceived as instruments acting as "important boundary spanners of the organization and its environment that make timely information available to the executive managers of the firm" (Zahra & Peace, 1989).

Indeed, the boards' capital (human and relational) will feed the firms' provision of resources (Hillman & Dalziel, 2003), hence reduce its dependency with the environment (Pfeffer & Salancik, 1978) and enable it to increase and sustain its performance and viability (Daily et al., 2003). As such, the theory studies boards from the exterior by making use of a much more internally focused perspective (Huse, 2005).

Prescriptions following resource dependency thinking

The resource dependency perspective very much leans on the contingency framework, which stipulates that board role expectations are highly dependent on the context and the actors involved (Huse, 2005). The main contingency factors affecting the expected role of boards are the external environment (industry and its stakeholders), the type of business (size, ownership, type) and the company's life cycle (Zahra & Pearce, 1989).

Accordingly, boards' role is conceptualized as a "control, service and strategy" mechanism (see Appendices A.5). Indeed, the four potential primary benefits of a director to a company can be (i) advice and counsel, (2) legitimacy, (3) external ties and connections and (4) preferential access to support from relevant outside stakeholders (Pfeffer & Salancik, 1978).

To fulfil its role, the board should endow the right attributes, i.e adequate composition and characteristics or capital (Pfeffer, 1972, Zahra & Pearce, 1989). The adequacy of these board attributes with the interdependent environment is determinant for a firms' performance (Westphal, 1999, as cited in Desender, 2009).

1.7 Assumptions of agency theory

1. Contractual perspective of the firm

Alchian and Demsetz (1972) and Jensen and Meckling (1976) somewhat changed the definition of the firm provided by Coase (1937) by refuting the authority of the entrepreneur. Instead, these authors have introduced a contractual perspective of the firms, in which contracts are a channel for voluntary exchanges between parties (Alchian and Demsetz, 1972). This innovation represents a drastic disruption with neoclassical theory which perceives the firm as a "black box" (Jensen and Meckling, 1976).

The literature has ever since adopted the following definition of the firm:

Definition of the “Firm”

A firm is one form of legal friction, which serves as a nexus for contracting relationships between the various claimants to its cash flows.

Jensen and Meckling, 1976

In other words, a firm taken in its more simplistic state is nothing more but a particular “standard form” contract, a legal status (Hart, 1989). On the basis of which legal arrangements (contracts) allowing the parties to agree on their rights in the organization, the way their performance is evaluated, and the type of payoffs they can claim are concluded (Fama and Jensen, 1983). Optimal contracting enables organizations to reach a so-called neutral nexus in which conflicting interests are brought into equilibrium (Jensen and Meckling, 1976; Williamson, 1988).

2. Bounded rationality

It assumes that the contracting parties act under bounded rationality (Williamson, 1988; Shleifer and Vishny, 1997; Fama and Jensen, 1983). Bounded rationality means that neither a human being nor a machine (being developed by human beings) can foresee each and every possible contingency. This means that a behaviour can be “intently rational, but only limitedly so” (Williamson, 1988). Uncertainty and risk will never equal zero. As a consequence, complete contracting is infeasible. This fact is at the core of research in corporate governance, regardless of the lens, which is being adopted.

3. Shareholder primacy and financial motivation

While the contractual view of the firm seems to be an instructive cognitive model, there are two aspects that need to be considered in order to clarify the stakes. As Williamson (1988) points out, (1) contracts between given constituencies can affect the value of contract with other constituencies, which will be defined as *contractual interdependencies*, and (2) the neutrality of contracts is not necessarily guaranteed.

Firstly, contractual interdependencies mean that the contractual alignment of interests between two parties, say the manager and the capital investors, could deteriorate the wellbeing of other contractual parties, say the employees, or the creditors. Such interdependencies call for equal consideration for the broad spectrum of the firms' contractual constituencies.

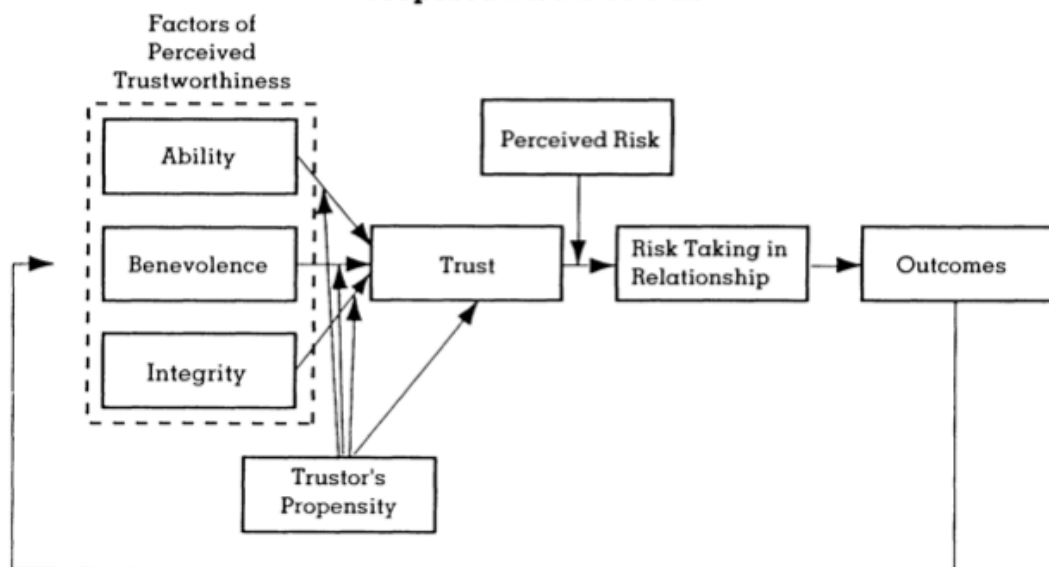
Nevertheless, agency theorists usually recognize the primacy of shareholders' interests (Eisenhardt, 1989), which in the case of diffuse ownership typically translates into a financial profit maximization function. As Fama and Jensen (1983) put it, the most central contracts of the firm are those between the residual risk bearers (financiers) and those who control (managers). Shleifer and Vishny (1997) define corporate governance as the mean to ensure a financial return for investors.

As a consequence, the neutrality of the nexus of is broken, which leads Macey and O'Hara (2003) to claim "no set of claimants should have any a priori rights in relation to any other" and Pieper (2003) to assert that theories focusing exclusively on the relationship between owners and managers are not representative for describing the modern configuration of the economic landscape.

Part II

2.1 Integrative model of organizational trust

FIGURE 1
Proposed Model of Trust



Source: Mayer et al., 1995

Part III

3.1 Trust in institutional guarantees' scale

French version

Avez-vous lu le « Règlement d'ordre intérieur » et/ou les « Statuts » de NewB ? Oui – Non

– Je ne sais pas ce que c'est

Si oui

Évaluez les propositions suivantes.

1 : pas du tout d'accord ; 2 : plutôt en désaccord ; 3 : ni d'accord ni désaccord ; 4 : plutôt d'accord ; 5 : Totalement d'accord

1. J'ai le sentiment que ces documents protègent adéquatement mes intérêts
2. La répartition des droits et des devoirs me semble équitable
3. Le contenu de ces documents renforce ma confiance dans la coopérative
4. Ces documents confèrent suffisamment de pouvoir aux coopérateurs

Dutch version

Kan u ook volgende stellingen beoordelen

1: Helemaal mee oneens; 2: Mee oneens; 3: Niet mee eens, maar ook niet mee oneens; 4: mee eens; 5: Helemaal mee eens

1. Ik heb het gevoel dat deze documenten mijn belangen op een passende manier beschermen
2. Volgens mij is de verdeling van rechten en plichten in deze documenten rechtvaardig beschreven
3. De inhoud van deze documenten versterken mijn vertrouwen in de coöperatie
4. Deze documenten kennen voldoende macht toe aan de coöperanten

3.2 Trust in board directors' integrity scale

French version

Évaluez les propositions suivantes.

1 : pas du tout d'accord ; 2 : plutôt en désaccord ; 3 : ni d'accord ni désaccord ; 4 : plutôt d'accord ; 5 : Totalement d'accord

1. Les dirigeants de la coopérative communiquent de façon transparente et honnête envers les coopérateurs
2. Les dirigeants de NewB pensent plus à leur propre avenir qu'à celui de la coopérative

3. J'ai confiance dans la capacité de nos dirigeants à maintenir un bon climat social au sein de la coopérative
4. Les dirigeants de la coopérative profitent de leur position au détriment des intérêts des coopérateurs
5. Je pense que les dirigeants de la coopérative sont honnêtes
6. Globalement, je suis satisfait du travail des dirigeants

Dutch version

Kan u de volgende stellingen evalueren:

1: Helemaal mee oneens; 2: Mee oneens; 3: Niet mee eens, maar ook niet mee oneens; 4: mee eens; 5: Helemaal mee eens

1. De leiding van de coöperatie communiceert op een transparante en betrouwbare manier met de coöperanten
2. De leiders van NewB denkt eerder aan haar eigen toekomst dan aan de toekomst van de coöperatie
3. Ik heb vertrouwen in het vermogen van onze leiding om een goed sociaal klimaat te bewaren binnen de coöperatie
4. De leiders van de coöperatie maken misbruik van hun positie ten nadele van de belangen van de coöperanten
5. Ik denk dat de leiders van de coöperatie eerlijk zijn
6. Over het algemeen ben ik tevreden over het werk van de leiding

3.3 Members' attitude toward participation scale

French version

Avez-vous déjà participé à une activité en rapport avec NewB ? (Voix de votre Epargne, AG, ...) Oui - Non

Evaluez les propositions suivantes

1 : pas du tout d'accord ; 2 : plutôt en désaccord; 3 : ni d'accord ni désaccord; 4 : plutôt d'accord ; 5 : Totalement d'accord

1. Si je prends parts à ces activités, j'ai le sentiment de pouvoir faire valoir mes intérêts
2. Si les membres participent à la vie coopérative de NewB, ils peuvent en influencer la gestion
3. C'est important pour moi qu'un maximum de coopérateurs participe à la vie coopérative
4. En prenant part au processus démocratique, je renforce mon sentiment d'appartenance à la coopérative
5. Si je prends part au processus démocratique de la coopérative, je peux contribuer à influencer la coopérative

Dutch version

Heeft u al deelgenomen aan een activiteit georganiseerd door NewB? (Spaarstem, AV, ...) Ja - Nee

Zo ja

Beoordeel de volgende stellingen

1: Helemaal mee oneens; 2: Mee oneens; 3: Niet mee eens, maar ook niet mee oneens; 4: mee eens; 5: Helemaal mee eens

1. Wanneer ik deelneem aan deze activiteiten, heb ik het gevoel dat ik mijn belangen kan doen gelden
2. Als de leden deelnemen aan het coöperatieve leven van NewB, kunnen ze het beleid beïnvloeden
3. Het is belangrijk dat zo veel mogelijk coöperanten deelnemen aan het coöperatieve leven
4. Wanneer ik deelneem aan het democratisch proces, versterk ik mijn samhörigheidsgevoel binnen de coöperatieve
5. Wanneer ik deelneem aan het democratisch proces, kan ik de coöperatieve beïnvloeden

Part IV

4.1 Explanation of research purpose

As my primary purpose was to identify the critical sources of governance issues in banks, I was naturally lead to describe the actual state of banks and then explain why the system couldn't promote long term, stable and inclusive socio economic development.

However, during my short trainee experience in a financial cooperative, I felt like the theory of corporate governance I had been reading for the past months was far too limited to explain the particular governance of cooperative banks. There was more, maybe symbolic and inner aspects of the stakeholders that had significant effects on the attitude and behaviour of each of them in the system.

During a month, I managed to discuss extensively with experienced people within the cooperative I was working in. I had switched my approach to an exploratory one, trying to pull new insights to characterize the governance of these very particular financial institutions. This inductive posture lead me to open my eyes to the multiple sometimes huge aspects very likely to have a significant influence on the nature of the relationships bounding owners with their board of directors.

My initial intuition was that different types of owners lead to very different types of governance practices in firms. In investor-owned banks for instance, institutional investors, families or public authorities have very different interests (Sur et al., 2013).

As most regulatory rules/recommendations and internationally recognized "best practices" in the field governance are deduced from the Anglo-Saxon model of governance, they tend to underestimate the influence of other types of ownership structures than the classical "widely diffused ownership structure" described by Berle and Means (1932). This leads the law (soft and hard), governance structures or mechanisms to sometimes be of very limited use in other contexts (Aguilera and Jackson, 2003).

In parallel, Macey and O'Hara (2003) as well as Ciancanelli and Reyes-Gonzalez (2000) convinced me that the agency approach to governance as only exhibiting shareholders (as principals) and managers (as agents) was a too narrow framework to study the governance of banks. The predominance of debt holders in a banks' financial structure and the significant involvement of public authorities in the sector called for extended accountability.

By chance, my internship had lead me to integrate a type of bank where these problems could be avoided through the particular setting triggered by customer ownership. If owners were also customers, i.e debt holders, accountability in the bank could be restored.

But a problem remained: the opacity of the sector combined with the distance separating the cooperative's members and the firms' directors could still end up in corporate scandals. This risk is considered by the classic agency literature as even more salient in the case of cooperatives since these have a very diffused ownership structure as a consequence of democratic voting system, and do not foresee performance related compensation schemes or stock options.

How did financial cooperatives manage to deal with this issue? To answer this question I had to look at members' participation to the governance of their firm. Active participation of members is one of the 5 pillars composing the cooperatives' distinctiveness enounced by the International Cooperative Alliance (ICA). It is critical for the success of its democratic process and for the superior quality of its services.

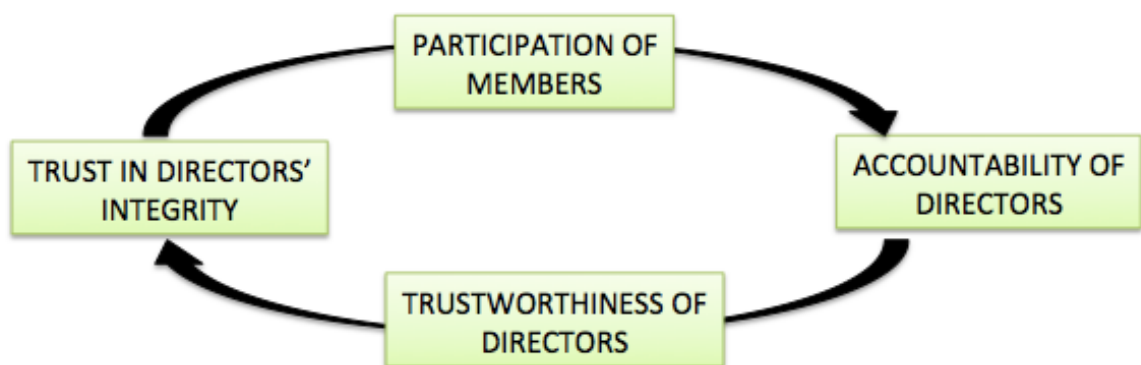
Henceforth, I started thinking about the various ways through which members' could be willing to participate to the cooperative's activities. In this quest, I identified trust as a key dimension for participative behaviour. Trust was seen by the literature as psychological state able to produce efficient cooperation. If trust was left out of the picture drawn by agency theorists, it could however lead to improved corporate governance.

Consequently, I chose to study two sources of trust potentially leading to members' participative behaviour. The first source of trust resides in the trustworthiness of the institution. Through its statutory and non-statutory documents, an institution vehicle certain signals likely to affect the confidence people have in its trustworthiness. The second source of trust I explore, is the one dedicated to the cooperative's directors. If directors are known to

be trustworthy, members are assumed to be more likely to participate to the activities organized by the cooperative.

Last but not least, I shed light on the power of member engagement in promoting directors' moral obligation to be accountable toward members. Once felt obliged, the cooperative is more likely to display sound corporate governance, which in turn nurtures trust. The result is an iterative loop sketched as follows:

Figure 8. Trust accountability loop



Source: Lambert (2015)

4.2 NewB invitation to complete questionnaire

Email sent the 5th of June by NewB

Target: 1000 members of the cooperative (500 FR/ 500 NL)

Objective: Pilot test.

NEWB QUESTIONNAIRE COOPERATEUR/DIRIGEANT



Cher coopérateur,

Vous avez été tiré au sort pour répondre à un questionnaire anonyme dans le cadre de la réalisation d'un mémoire de fin d'études. Il porte sur la relation coopérateur/dirigeant. Ce mémoire est rédigé par le stagiaire qui a collaboré entre autres à la Voix de votre épargne.

Accepteriez-vous de prendre quelques minutes de votre temps pour y répondre? NewB recevra également les données et les conclusions. D'avance, nous vous remercions au nom de Timothy L.

[Cliquez ici pour remplir le questionnaire](#)

Salutations coopératives,
L'équipe de NewB

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Société coopérative européenne à responsabilité limitée
Rue Botanique 75 - 1210 Saint-Josse-ten-Noode
RPM Bruxelles 0836.324.003
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Email sent the 1th of July by NewB
Target: 1500 members of the cooperative (FR only)
Objective: Final data collection

NEWB QUESTIONNAIRE COOPERATEUR/DIRIGEANT



Cher coopérateur,

Vous avez été tiré au sort pour répondre à un questionnaire anonyme dans le cadre de la réalisation d'un mémoire de fin d'études. Il porte sur la relation coopérateur/dirigeant. Ce mémoire est rédigé par le stagiaire qui a collaboré entre autres à la Voix de votre épargne.

Accepteriez-vous de prendre quelques minutes de votre temps pour y répondre et ce **avant le lundi 6 juillet à 23h59**? NewB recevra également les données et les conclusions. D'avance, nous vous remercions au nom de Timothy L.

[Cliquez ici pour remplir le questionnaire](#)

Salutations coopératives,
L'équipe de NewB

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4.3 Social purpose of NewB

Figure 9. Extract from the legal statutes of NewB

ARTICLE 3 : OBJET SOCIAL

La société a pour objet de satisfaire aux besoins et au développement des activités économiques et/ou sociales de ses membres au travers de l'activité suivante : promouvoir la création d'une nouvelle banque coopérative en Belgique, pour offrir un service simple, sûr et durable à tous les citoyens, aux associations, aux mouvements sociaux et aux entrepreneurs.

Ainsi et à titre exemplatif, cette banque offrira un éventail de produits et services suffisants pour être la première banque du client. Elle veut être un soutien économique fort pour les intermédiaires sociaux et pour le citoyen attentif. Elle vise une part représentative du marché. La nouvelle banque sera une banque d'ici, pour nous, à nous, fondée sur les valeurs suivantes:

Source: https://www.newb.coop/sites/default/files/attachments/statuts_20140614_fr.pdf

4.4 Members' political power

1. **Decision power:** at the AGM by making use of their voting right.
2. **Control power:** investigating power means of the appointment of a societal committee (responsible for overseeing the ethics of the cooperatives' activities) or a company auditor.
3. **Interpellation power:** by asking direct questions to the directors,
4. **Suggestion power:** invitation to participate to annual surveys regarding main aspects of the cooperative's activities
5. **Discussion power:** organization of local and regional forums as well as online forums to mobilize the experience, skills and engagement of members for the preparation of decisions.

Source:

<https://www.newb.coop/fr/reglement-dordre-interieur>

4.5 The 12 statutory values of NewB

Figure 10. Values of NewB

Elles sont l'ADN de NewB et sont inscrites dans les statuts de la coopérative :

1. Insertion sociale : à travers des dizaines d'associations et des dizaines de milliers de coopérateurs.
2. Simplicité : les produits et services proposés aux clients sont simples à comprendre.
3. Sécurité: à travers des investissements dans l'économie réelle. Le gain n'est pas un objectif en soi.
4. Durabilité: la banque exclut tout produit ou projet nuisible à l'environnement et à la société.
5. Transparence: dans toutes les activités de la banque.
6. Innovation: solutions innovantes pour une économie sociale et écologique.
7. Participation: le client a son mot à dire.
8. Honnêteté: partage équilibré des bénéfices entre les dépôts et les coopérateurs.
9. Inclusion: accès au service pour tous.
10. Sobriété: par une gestion économique et appropriée.
11. Diversité: attention pour les différences entre les personnes.
12. Proximité: proche des gens.

Source:

<https://www.newb.coop/fr/propos-de-newb>

4.6 Results online participative campaign

The following table shows the results of the first campaign period of the so-called “Voix de votre épargne”. The purpose of this campaign is to allow members to shape of the future credit policy of the cooperative bank, by voting every month online on a new theme.

Figure 11. Results of "La voix de votre épargne"

Thème	Votes	Rouge	Orange	Vert	Semaines	Votes /semaine
Armes	12.594	65%	31%	4%	23	548
Société civile	9.638	4%	59%	37%	20	482
Alcool	8.763	20%	50%	30%	17	515
Transport routier	8.386	23%	62%	15%	14	599
Energie	8.087	1%	87%	12%	11	735
Logement	6.531	1%	79%	20%	8	816
Transgression de la loi	5.045	30%	64%	6%	5	1.009
Technologie du nucléaire	4.061	12%	65%	23%	2	2.031

Source: NewB (newsletter)

4.7 Effective participation at NewB

- **Participation to the Annual General Meetings (AGM)**

On average, 480 members effectively participate every 3 or 6 months to the General Assemblies organized by NewB. However, many others ask to be represented by other members in case they cannot attend themselves. At the last General Assembly held in June 2015, more than 2200 members asked to be represented by someone else. They further provided a reason of their absence and a possible feedback of a measure that would have allowed their effective participation. Each member is invited to vote on the various points of the agenda, following the “one man, one vote principle”. Members can also write their questions down before having them answered by the CEO on stage a few minutes later. This fosters certain level of interactivity during these days of long lasting presentations.

- **Online participation to campaigns and surveys**

In November 2014, NewB launched a campaign called “La voix de votre épargne” which is aimed at giving members the chance to shape the future credit policy of the bank. Every 3 weeks, members get the chance to vote on a given theme (e.g. nuclear technologies, housing, transport, etc.) online. The average participation rate fluctuates around 25% of total membership (see Appendices 4.6).

Part V

5.1 Assumptions for parametric tests

5.1.1 Test #1

Independent Samples Test								
		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2- tailed)	Mean Difference	Std. Error Difference
avgattparticip	Equal variances assumed	4,331	,038	5,141	309	,000	,27743	,05397
	Equal variances not assumed			5,160	296,413	,000	,27743	,05376

Source: SPSS 21

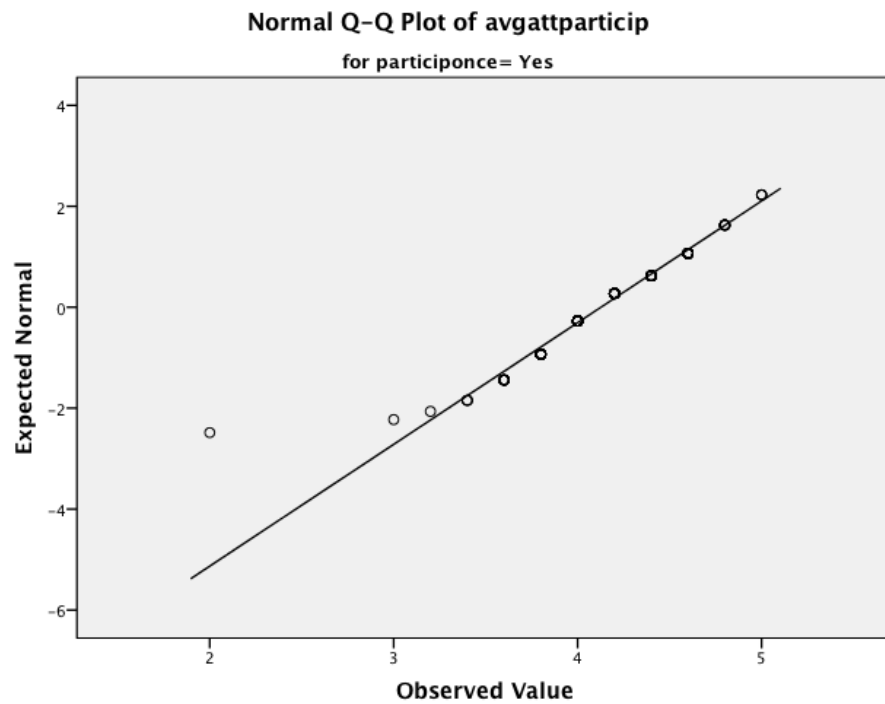
In order to assess the quality of our data, we assess whether they comply with the assumptions necessary for carrying out parametric tests.

- **Independence of the sample**

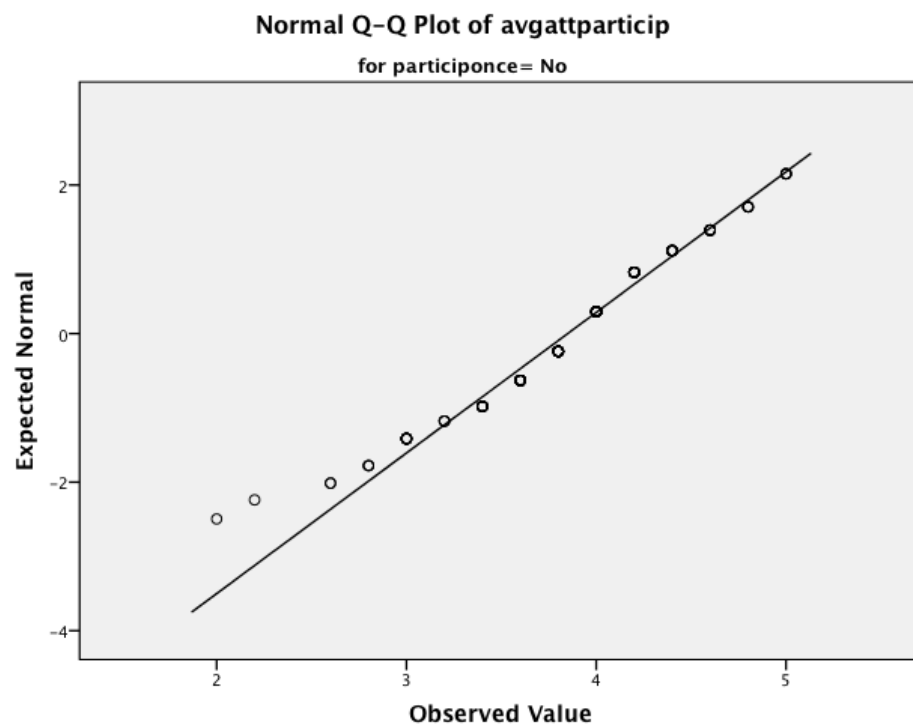
Within our sample, all respondents are members of the cooperative because it is the cooperative itself that sent, through its official newsletter, the invitation to the members. Also, each member has only been given one chance to fill in the survey and have had no chance to influence other members' answers. Finally, outliers in our sample have not been removed.

- **Normality of distribution**

We first observed our data using histograms and Q-Q plots in order to assess the normality of the distribution. However, as mentioned by Larson Hall (2010), it is nearly impossible to assess whether the data is normally distributed or not when the sample size is not very large.



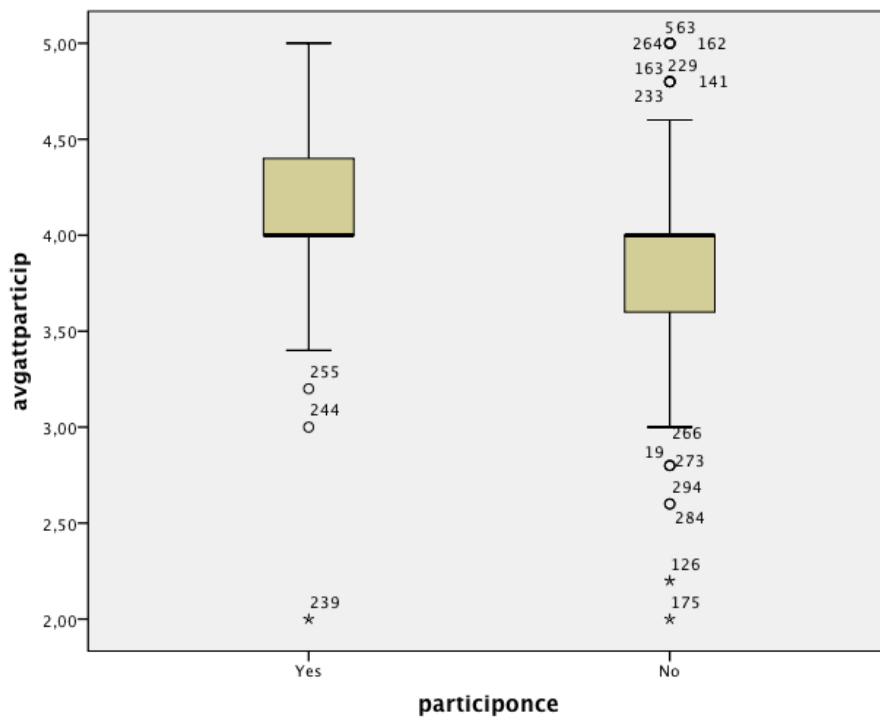
Source: SPSS 21



Source: SPSS 21

Apart from some outliers, the dataset is reasonably normally distributed.

- **Homogeneity of variances**



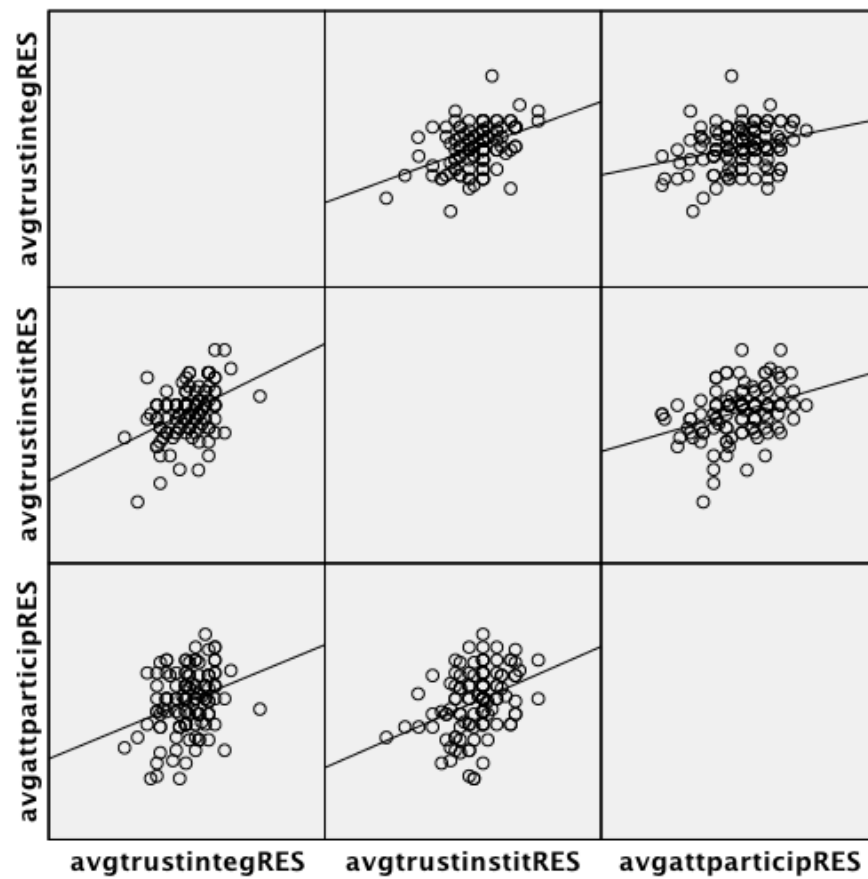
Source: SPSS 21

The boxplots are of similar size, which lead us to support the assumption that variances are homogeneous between groups. Moreover, the Levines' test is significant (p-value = .038) which supports this belief.

5.1.2 Partial Correlations

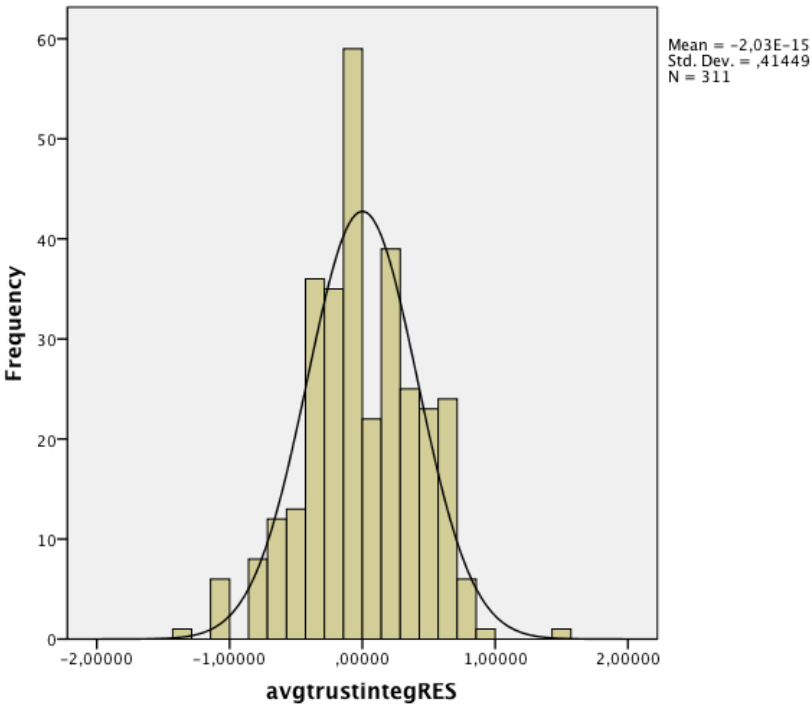
The scatterplots features avgtrustinteg, avgtrustinsti and avgattparticip while controlling for the effect of satisperfo. The aim is to see if a linear correlation is the best way to describe our data.

The correlations are featured below and a regression line has been drawn to visualize the extent of the linearity of our dataset:

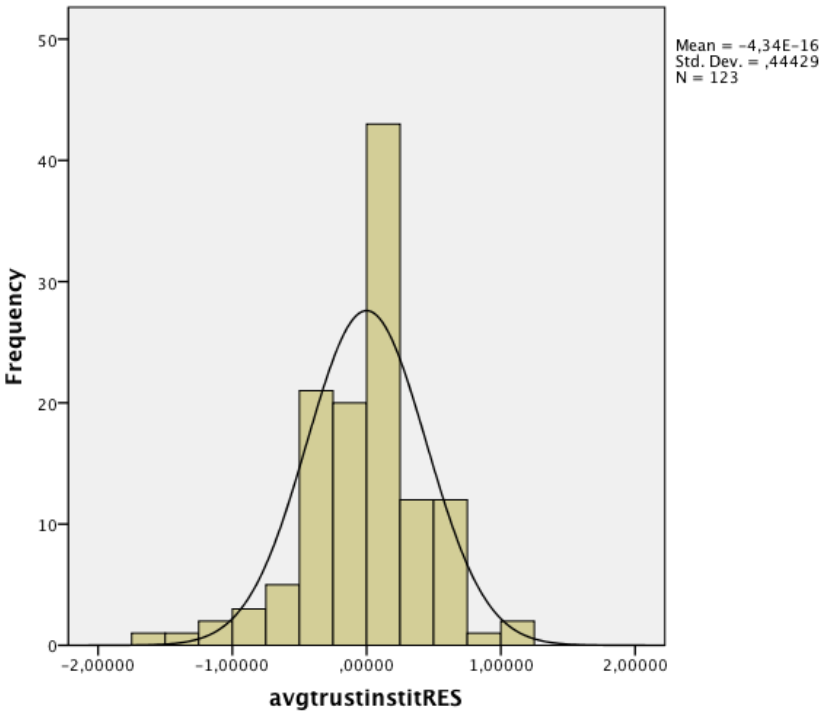


Source: SPSS 21

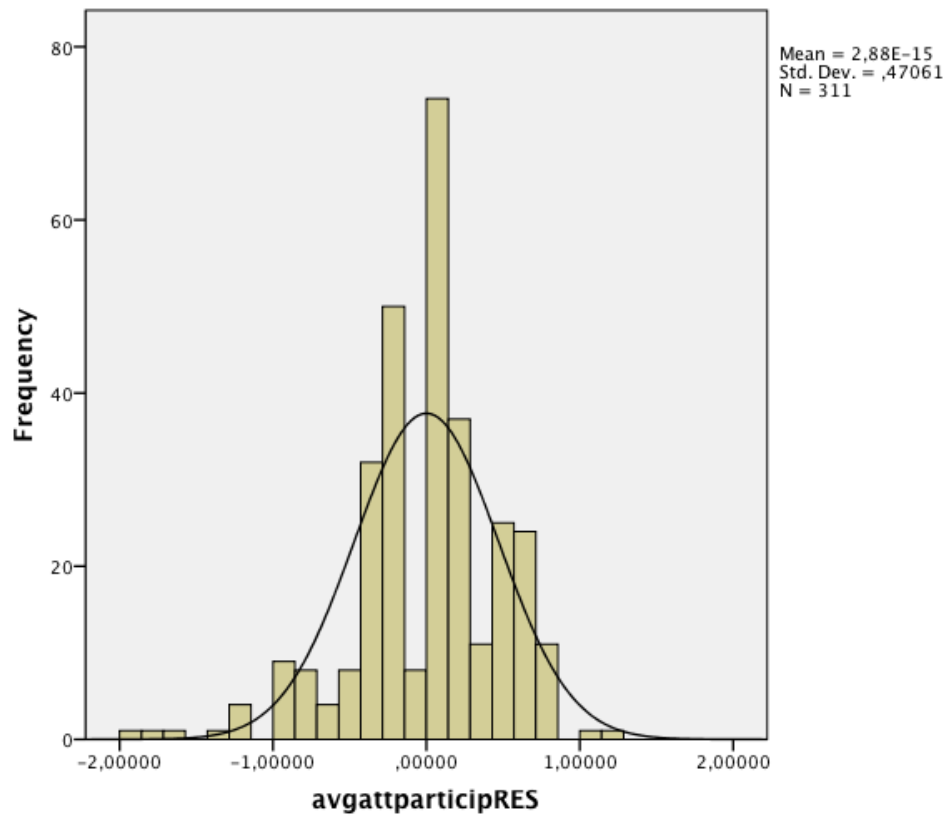
We further provided histograms displaying a normal curve in order to recheck the normality of our data (after having checked for skewness and kurtosis).



Source: SPSS 21



Source: SPSS 21



Source: SPSS 21

5.2 Regressions

5.2.1 H2

Model Summary ^c									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	,232 ^a	,054	,046	,46935	,054	6,891	1	121	,010
2	,418 ^b	,175	,161	,44023	,121	17,543	1	120	,000

a. Predictors: (Constant), satisperfo

b. Predictors: (Constant), satisperfo, avgtrustinstit

c. Dependent Variable: avgattparticip

Source: SPSS 21

The obtained model explains 16.1% of total members' attitude toward participation (at p-value=0.000)

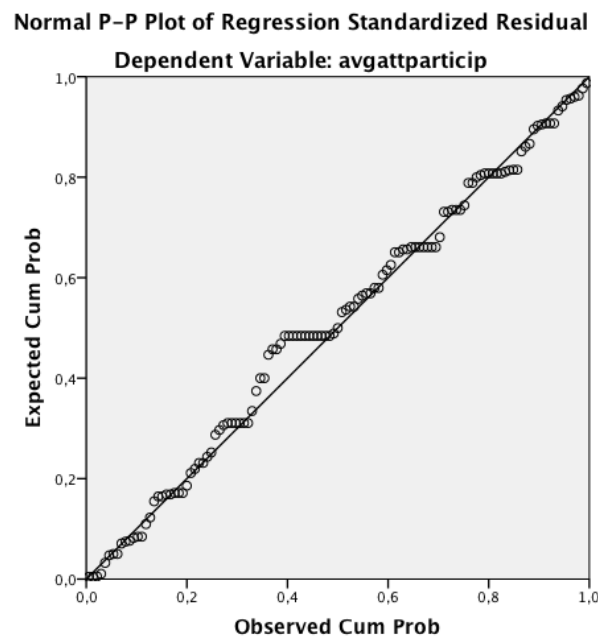
Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3,237	,299		10,815	,000		
	satisperfo	,185	,070	,232	2,625	,010	1,000	1,000
2	(Constant)	2,397	,345		6,947	,000		
	satisperfo	,029	,076	,037	,390	,698	,760	1,315
	avgtrustinstit	,376	,090	,398	4,188	,000	,760	1,315

a. Dependent Variable: avgattparticip

Source: SPSS 21

The regression equation is: $avgattparticip = 2,397 + 0,029 * satisperfo + 0,376 * avgtrustinstit$

- **Normality of distribution**



Source: SPSS 21

Based on this curb, we see there are some serious departures from the normality line. Therefore, we will at the Residual Statistics table to see if we can detect any sign of outliers.

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3,2071	4,4228	4,0146	,20077	123
Std. Predicted Value	-4,022	2,033	,000	1,000	123
Standard Error of Predicted Value	,043	,179	,064	,025	123
Adjusted Predicted Value	3,1296	4,4415	4,0145	,20320	123
Residual	-1,14098	,98243	,00000	,43660	123
Std. Residual	-2,592	2,232	,000	,992	123
Stud. Residual	-2,621	2,243	,000	1,003	123
Deleted Residual	-1,16690	,99201	,00017	,44644	123
Stud. Deleted Residual	-2,688	2,281	-,001	1,011	123
Mahal. Distance	,186	19,120	1,984	2,735	123
Cook's Distance	,000	,064	,008	,012	123
Centered Leverage Value	,002	,157	,016	,022	123

a. Dependent Variable: avgattparticip

Source: SPSS 21

Following the prescriptions of Larsson-Hall (2010), we see there is no value of Sdt Residual that exceeds +/- 3. Further on, the Cook's distance does not exceed 1. There are signs of absence of outliers in our dataset.

- **Multicollinearity**

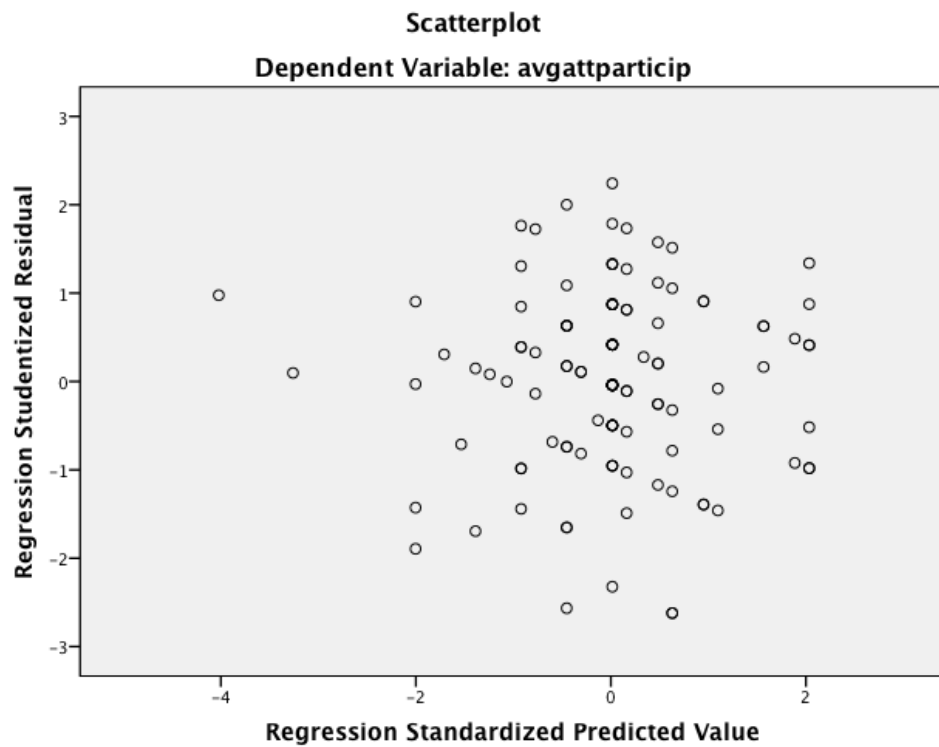
Looking at the partial correlation table provided in Section 5.2.1.2 we see a Pearson correlation of .357 (df= 120; p-value = .000) which can be considered as a medium size correlation. Moreover, looking at the Variance Inflation Factor (VIF) we see that no value exceeds 5, which is a good sign of the absence of multicollinearity.

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	satisperfo	1,000	1,000
2	satisperfo	,760	1,315
	avgtrustinstit	,760	1,315

a. Dependent Variable: avgattparticip

Source: SPSS 21

- **Scatterplot to assess homogeneity of variance**



Source: SPSS 21

We see that the dots are concentrated in the center of the cloud, which leads us to refute the assumption that our data has an homogeneous variance.

5.2.2 H3

This assumption tests the relationship of the two trust variables (*avgtrustinteg*, *avgtrustinsti*) with members' attitude toward participation to the governance of their cooperative. The sequential regression model testing for the mediating power of *avgtrustinsti* on the relationship between *avgtrustinteg* and *avgattparticip* is displayed in the following table:

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3,237	,299		10,815	,000		
	satisperfo	,185	,070	,232	2,625	,010	1,000	1,000
2	(Constant)	2,637	,340		7,752	,000		
	satisperfo	,020	,084	,026	,243	,809	,649	1,540
	avgtrustinteg	,310	,094	,349	3,304	,001	,649	1,540
3	(Constant)	2,217	,356		6,222	,000		
	satisperfo	-,035	,083	-,044	-,417	,678	,619	1,616
	avgtrustinteg	,179	,100	,202	1,788	,076	,531	1,882
	avgtrustinstit	,301	,098	,319	3,063	,003	,622	1,607

a. Dependent Variable: avgattparticip

Source: SPSS 21

This model allows us to explain 17.6% of the variance of members' participation (attitude is a proxy of effective proxy, see test Section 6.2.1).

Model Summary ^d					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics
					R Square Change
1	,232 ^a	,054	,046	,46935	,054
2	,364 ^b	,133	,118	,45122	,079
3	,443 ^c	,196	,176	,43625	,063

a. Predictors: (Constant), satisperfo

b. Predictors: (Constant), satisperfo, avgtrustinteg

c. Predictors: (Constant), satisperfo, avgtrustinteg, avgtrustinstit

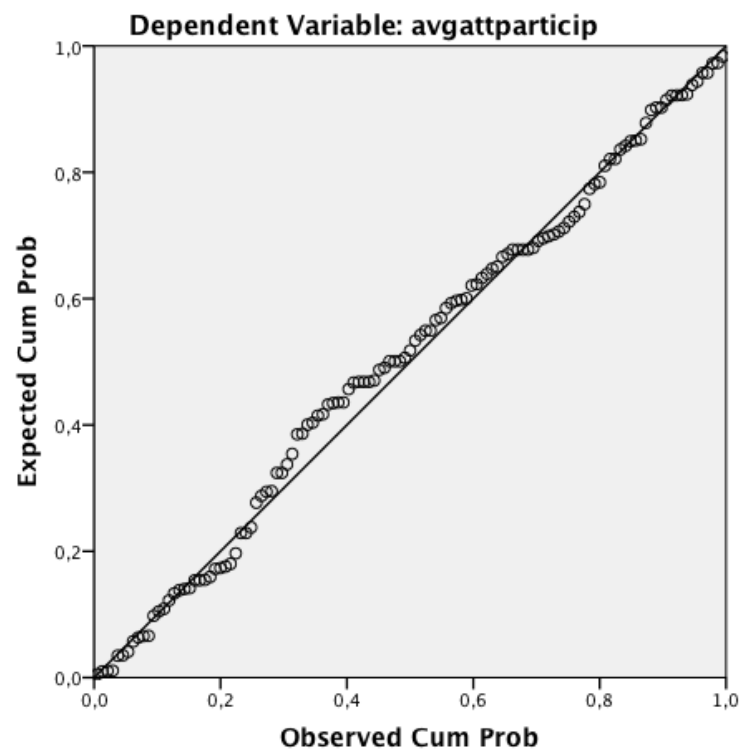
d. Dependent Variable: avgattparticip

Source: SPSS 21

- **Normality of distribution**

In order to visualize the normality of the distribution, we generate a PP Plot based on residuals

Normal P-P Plot of Regression Standardized Residual



Source: SPSS 21

We find some departures from the normal line. Therefore we will see if there are any outliers in our dataset:

Test for potential outliers

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3,2932	4,4444	4,0146	,21284	123
Std. Predicted Value	-3,389	2,019	,000	1,000	123
Standard Error of Predicted Value	,043	,189	,074	,028	123
Adjusted Predicted Value	3,2594	4,4738	4,0156	,21486	123
Residual	-1,11126	,92934	,00000	,43085	123
Std. Residual	-2,547	2,130	,000	,988	123
Stud. Residual	-2,578	2,146	-,001	1,004	123
Deleted Residual	-1,13819	,94281	-,00098	,44524	123
Stud. Deleted Residual	-2,642	2,179	-,002	1,012	123
Mahal. Distance	,219	21,816	2,976	3,386	123
Cook's Distance	,000	,078	,008	,014	123
Centered Leverage Value	,002	,179	,024	,028	123

a. Dependent Variable: avgattparticip

Source: SPSS 21

The Std Residual varies between -2.547 and 2.130 which is a good sign of an absence of outliers. The Cooks' distance is also positive as no value exceeds 1 (the largest value is 0.078). Therefore, we can reasonably believe there are no outliers in our dataset.

- **Multicollinearity**

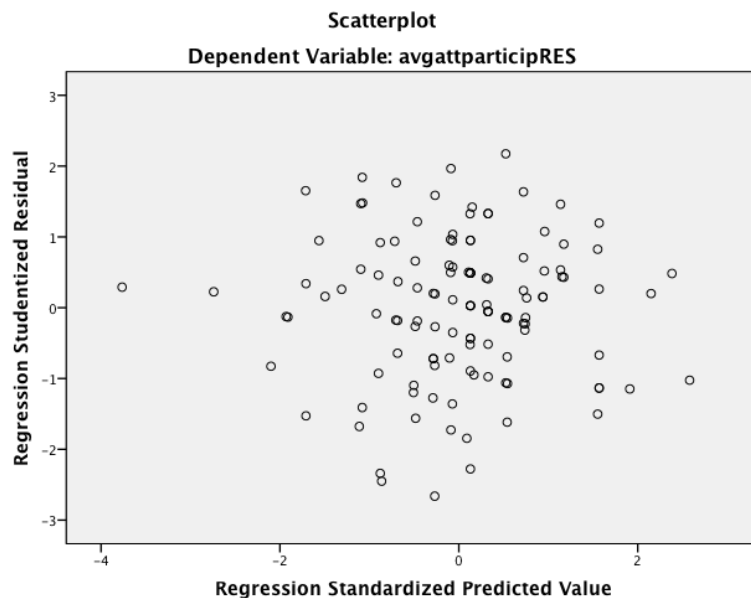
Looking at the partial correlation table provided in Section 6.2.2.1 we see a Pearson correlation of .357 (df= 120; p-value = .000) which can be considered as a medium size correlation. Moreover, looking at the Variance Inflation Factor (VIF) we see that no value exceeds 5, which is a good sign of the absence of multicollinearity.

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	satisperfo	1,000	1,000
2	satisperfo	,649	1,540
	avgtrustinteg	,649	1,540
3	satisperfo	,619	1,616
	avgtrustinteg	,531	1,882
	avgtrustinstit	,622	1,607

a. Dependent Variable: avgattparticip

Source: SPSS 21

- **Scatterplot to assess homogeneity of variance**



Source: SPSS 21

We see that the dots are concentrated in the center of the cloud, which leads us to refute the assumption that our data has an homogeneous variance.

5.3 Interview with Marc Bontemps

5.3.1 Transcription interview 01 (Marc Bontemps)

1. Présentation du répondant

a. Fonction au sein de NewB ?

Secrétaire du Conseil d'administration et de ses différents comités (sociétal, etc.), de l'Assemblée générale.

b. Temps au sein de NewB ?

Depuis 2009-2010, fait partie des initiateurs du projet.

c. Expérience dans le domaine coopératif/banquier?

i. Expérience au sein du CA ?

A participé aux 57 Réunions du CA organisés

ii. Contact fréquent avec le CA ?

//.

2. Les garanties institutionnelles de NewB

a. Exclusivement activités commerciales (retail)

i. Pourquoi est-ce important pour les coopérateurs d'avoir une banque coopérative qui se focalise sur les activités commerciales ?

NewB se veut être une banque de l'économie réelle. Elle veut montrer qu'elle a appris des expériences du passé (crise de 1929, crise de 2008). C'est une exigence également des coopérateurs.

ii. Cette particularité permet-elle de nouer des liens plus forts avec les coopérateurs ?

Une des raisons pour laquelle les coopérateurs s'intéressent au projet de NewB, est que la coopérative renoue avec l'essence de l'activité bancaire. NewB veut que tout le monde comprenne fondamentalement ce qui se passe avec leur argent.

Les investment banking ne stimulent pas la transparence et la participation de par leurs activités de marché.

- iii. Cette particularité favorise-t-elle la participation des coopérateurs à la vie coopérative ?

Oui, c'est un argument clé. La remarque #1 des coopérateurs est qu'ils veulent savoir ce qui se passe avec leur argent. Est-il utilisé pour les bonus des directeurs ? Est-il utilisé pour construire des palais pour les banques ? Est-il utilisé pour des financements que je ne désire pas ? Ces questions étaient au cœur des préoccupations des coopérateurs.

Les coopérateurs veulent être à même de savoir, de comprendre ce qui se passe avec leur argent.

b. La taille de la coopérative

- i. Estimez-vous que NewB peut être considérée comme une coopérative financière de petite taille ?

Comparé aux banques coopératives du monde NewB est relativement petit. Toutefois, lorsqu'on regarde en Belgique, NewB figure parmi les plus grandes coopératives financières.

Idéalement, pour assurer une gouvernance juste, 200.000 & 300.000 membres coopérateurs seraient souhaitables. Toutefois, NewB a la ferme attention de devenir la banque de tous les citoyens belges.

- ii. La coopérative s'est-elle donnée un plafond en terme de nombre de membres coopérateurs ?

L'ambition de NewB est de rentrer dans le TOP10 des banques belges.

- iii. Comment concilier ce plafond (ou cette absence) avec le souci de proximité avec les coopérateurs ?

La technologie est au service de la coopérative.

Le contact humain est également essentiel : l'ambition de NewB est d'avoir une présence dans chaque commune en Belgique, avec un ambassadeur érigé en responsable. Le but est d'être le plus proche possible des coopératives, aussi bien physiquement que par la technologie.

L'autre avantage est d'être actif dans un petit pays dans lequel il est plus facile d'avoir un contact avec ses coopérateurs.

c. Simplicité de la communication à destination des membres

- i. Le secteur bancaire est opaque de part la complexité de ses activités. Que fait NewB pour rendre ces activités compréhensibles par les coopérateurs ?

C'est une tâche compliquée pour des banquiers ; c'est une profession très réglementée (approche legaliste, respect des bons termes), ce qui rend compliqué la vulgarisation des communications.

NewB a mis en place un comité de lecture, formé de coopérateurs avec un sens de la langue,

pour formuler des phrases accessibles et fidèles à la réalité dans les communications de la coopérative.

- ii. La simplicité de la communication favorise-t-elle la participation des coopérateurs à la vie coopérative ?

Cela favorise surtout la compréhension des produits pour les coopérateurs ; NewB veut être le champion de la transparence, de la communication et de la simplicité.

d. Services dédiés aux membres coopérateurs uniquement

- i. NewB ne sert aujourd'hui que ses membres. Qu'en sera-t-il à l'avenir, lorsque la banque verra effectivement le jour ?

La ligne directrice est de privilégier fortement les membres. Surtout au niveau des membres citoyens. La prise de part a été fixée expressément bas pour que chaque citoyen puisse devenir membre de la catégorie B (citoyen) (rappel : 20 euros).

Tout citoyen client devra être membre.

NewB est une coopérative pour ses membres.

- ii. Une ouverture à la clientèle non membre est-elle selon vous susceptible de générer des conflits entre les clients membres et non membres ?

Il n'y aura pas de client non membre. Le défi sera toutefois de gérer la croissance des membres (distance...).

- ~~iii. L'ouverture à la clientèle non membre ne risque-t-elle pas de changer l'esprit, la motivation avec laquelle les membres participent aux activités de la coopérative ?~~

- ~~iv. Cette ouverture affectera-t-elle le caractère même de la coopérative ?~~

3. Participation des membres à la vie coopérative

- a. La participation des membres à la vie coopérative est-elle un réel enjeu stratégique pour la coopérative ?

C'est bien sûr une priorité, mais on ne peut forcer aucun membre à participer. L'objectif est de mettre tous les moyens en œuvre pour que les membres puissent participer. Mais il est impossible de forcer les membres à le faire.

- b. Quels mécanismes sont mis en place pour faciliter la participation des membres ?

NewB a mis en place un système d'excuse pour l'AG (>2200 membres se sont excusés) et 800 se sont inscrits. 2200 ont pris le temps de cocher la case « je veux être excusé » et ont coché une case justifiant la raison de leur excuse.

Une enquête envoyée aux personnes excusées permet d'avoir le feedback de ces personnes pour savoir comment favoriser leur participation à la vie coopérative.

D'autres enquêtes telles que « La voix de votre épargne » ou « la voix de votre produit » permettent de faire participer les membres aux activités également.

- c. Pourquoi, selon vous, les membres participent-ils à la vie coopérative ? Est-ce principalement symbolique, de contrôle ou pour apporter une contribution active à la performance ?

Une combinaison des différents d'aspects. Toutefois, les coopérateurs veulent vraiment que cette banque se réalise ; ainsi, s'ils peuvent contribuer ils le feront (toutefois, ce n'est pas généralisable à l'ensemble des coopérateurs).

40% des coopérateurs ouvrent les newsletters, cela signifie qu'il y a en 60% qui ne se préoccupent pas au-delà de leur apport financier de ce qui se passe chez NewB. La majorité veut une banque, un compte d'épargne, ils veulent que quelque chose bouge dans le monde financier.

Les coopérateurs veulent faire partie d'un mouvement positiviste.

De nombreux mouvements s'organisent en opposition à des choses existantes, NewB communique de manière positive.

Cette communication positive contribue au succès de NewB.

4. Sentiment d'obligation moral à l'égard des coopérateurs

- a. Sur base de votre expérience avec le CA, avez-vous le sentiment que le CA de NewB fonctionne différemment d'autres entreprises?

C'est clair. NewB a mis en place un modèle unique : une tension permanente entre des administrateurs issus du milieu associatif et des administrateurs du monde financier. Cela contribue à une dynamique et un mode d'interaction plus soucieux du collectif.

Il y a un souci collectif de créer la banque.

Le fait que les administrateurs travaillent sur une base volontaire crédibilise leur engagement dans la coopérative.

- b. Le CA est-il, selon vous, suffisamment en contact avec les membres coopérateurs dans le processus de décision?

Les administrateurs ne sont pas réellement en contact avec les coopérateurs.

- c. (Plus de) participation des coopérateurs aux activités de la coopérative permet(trait)-elle de réduire un potentiel risque de déviance des directeurs à leurs intérêts ?

d. Quelle forme de participation favorise selon vous la motivation des dirigeants à privilégier en toute circonstance l'intérêt de la coopérative par rapport à leur propre intérêt ?

Une participation active des coopérateurs contribue à responsabiliser les administrateurs. Cela rend la relation actionnaire/administrateur moins anonyme qu'une société cotée en bourse.