

THE CHALLENGES OF RECENT CHANGES IN FRENCH COOPERATIVE BANKING GROUPS*

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French cooperative banking groups have profoundly changed since the 1990s. The result of both constraints and opportunities, the changes have involved internal restructuring as much as external growth. The article shows a transformation in groups towards a universal bank but with hybrid structures incorporating both cooperatives and conventional companies. This hybridization of cooperative groups may eventually pose problems in terms of defining the objectives of the group and its components, the conflict over sharing the wealth created and power, and the potential for competition arising between parts of the same group. More broadly, this transformation has shifted the balance of power among the different stakeholders—managers, employees, board members, cooperative members and now also investors—creating a challenge that cooperative banking groups will have to meet in order to maintain their cohesion and capacity to expand.

Compared with conventional banks, French cooperative banks have special features, which are based upon the legal statutes governing cooperatives. The cooperative's capital is owned by the members in the form of shares, and the members are also the customers of the bank. These shares confer relatively limited rights compared with corporate stock. Voting rights are limited according to the principle of "one member one vote," the remuneration of shares is capped, and reserves cannot be divided. In addition, the shares cannot be traded on the open market and can only be repurchased by the issuing bank at their nominal value and subject to certain conditions. Consequently, the managing directors of cooperative banks have a high degree of autonomy compared with what principal-agent theory says for joint-stock companies (Charreaux, 1997). This is related to diffuse share-ownership, the traditional accumulation of substantial reserves, and not being subject to capital market discipline (e.g., a hostile takeover bid or drop in share price). Furthermore, members have two roles; they are both the cooperative's owners and its customers, which influences the company's objectives. In contrast with a conventional bank, a cooperative bank's objectives are not based on solely maximizing the shareholder's wealth. Efficient management is based on

an implicit consensus among the different stakeholders—not just the cooperative's members (as both owners and customers) but also the board members, managers and employees. Lastly, French cooperative banks have traditionally been set up as networks comprised of legally independent entities—local banks owned by members (except Banques populaires), regional banks owned by the local banks, and a federal or national body owned by the regional banks. The members are therefore involved in deciding the objectives of the regional banks, and the regional banks are involved in the policy decisions for the entire network, which they then implement. This is an inverted pyramid type of structure. Consequently, the network is decentralized, there are various centers of power, and managing directors are monitored internally. These special features distinguish the cooperative bank from the conventional bank and entail a specific form of corporate governance.

These specific features in terms of organization and property rights are the basis for the French cooperative banking groups' efficiency.⁽¹⁾ Less subject to short-term requirements for market profitability and less exposed to the market risks in the 1990s than conventional banks, they have played a central role in the recent restructuring of the French banking sector. They have now become large banking groups in their own right and with different compositions but each aimed at being a “universal bank” combining conventional companies and cooperatives across the different levels of the group. The range of financial products has significantly expanded, and types of business activities that had previously been reserved to conventional banks are now being developed. If these changes reflect the ability of cooperatives to adapt to the changing economic environment in the banking industry and to overcome the constraints that seemed intrinsic to the cooperative status, they are far from neutral, and their consequences are still unclear. This article has two objectives. First, we will examine why and how French cooperative banking groups have changed into hybrid groups combining cooperatives and conventional companies. Second, we will look at the risks involved with these changes—changes in organizational structures and objectives, and whether the erosion of a cooperative's specific identity is still compatible with fundamental cooperative values or leads to new principal-agent conflicts that reduce efficiency.

(1) For a comparison of the performance of cooperative banks and conventional banks, see Ory, Jaeger and Gurtner, “La banque à forme coopérative peut-elle soutenir durablement la compétition avec la banque SA?” in *Finance, contrôle, stratégie* (June 2006).

The transformation of French cooperative banking networks into hybrid banking groups...

The traditional inverted pyramid structure, which is typical of French cooperative groups, is now part of a more complex organizational structure encompassing a broader range of businesses, where the central institution generally holds, directly or indirectly, interests in several conventional subsidiaries. Before briefly looking at the current organizational charts of these groups, we will present the reasons behind these structural changes.

Why restructure?

The restructuring since the 1990s appears to have resulted from both the constraints affecting all financial establishments and opportunities that could be seized especially by the cooperative groups.

Restructuring as a result of constraints?

A characteristic feature of the 1990s was the accelerating globalization of the capital market. The growing importance of financial markets was accompanied by an increasing sophistication of product offerings, a trend towards banking de-intermediation, and banks' growing involvement in the markets. In addition, there was increased competition between banks in all their business activities and internationally as a result of deregulation in the 1980s. As the regulatory constraints on broadening their business activities were gradually lifted, cooperative banking groups had to adapt their organizations just like conventional banks or risk remaining boxed into retail banking centered on their traditional customer base⁽²⁾ and offering relatively simple, standardized products.

To avoid the real threat of being excluded from markets, French cooperative banks had to develop new business activities and customer bases that were new to them. However, it was hard for the cooperative groups to launch themselves straight into these new areas that required expertise and experience in risk management that they had not yet mastered. The small size of the autonomous and legally independent regional banks was an obstacle to developing these activities individually. The job of developing them was thus passed on to the head of the group, which would enable economies of scale. The new products and services that were developed would now be uniform and sold throughout the banking network. This is the case for *Crédit agricole*, *Banque populaire* and *Caisse d'épargne*, with the notable exception of *Crédit mutuel*, where the subsidiaries are mostly owned by the regional banks or groups of banks and therefore do not serve the whole group. Other businesses centered around financial markets, investment banking, international markets, etc. are also mostly owned by the group's central body (CNCE, CASA)⁽³⁾ or by a subsidiary holding company of the central body.⁽⁴⁾

Restructuring has also occurred internally within the cooperative groups. Thus, since the 1990s many regional banks have been merged in the *Caisse d'épargne*, *Crédit agricole* and *Banque populaire* groups. Various degrees of restructuring have also occurred in *Crédit mutuel* but have not always entailed merging banks. Furthermore, there has been a large reduction in the number of IT platforms within the cooperative networks, if not total unification (except in *Crédit mutuel*), again for reasons of economies of scale or X-efficiency.

Restructuring as a result of opportunities?

In tandem with these constraints, restructuring can be seen as a real opportunity seized by cooperative banking groups.

(2) The traditional customer base was shrinking due to demographic changes (smaller proportion of farmers in the workforce) and changes in the regulatory regime (ending of subsidized loans for small businesses, exports, etc.).

(3) *Caisse nationale des Caisses d'épargne* and *Crédit agricole SA*.

(4) This is the case of *Natexis* for the *Banque populaire* group, which is listed on the stock market, but the group's central body, *Banque fédérale des Banques populaires (BFBP)*, holds a majority stake.

(5) Gurtner, Jaeger, Ory (2002).

Firstly, cooperative banks were less affected by the financial crisis in the 1990s than conventional banks.⁽⁵⁾ Overall, they were in a buyer's position, especially as they could not themselves be taken over due to their cooperative status. Conversely, conventional banks, which were vulnerable at that time, were being bought out or were selling off their subsidiaries but were rarely in a buyer's position. When they were in a position to buy, they were unable to outbid the cooperative groups. This is was the case for the takeover of *Crédit lyonnais*.

Secondly, the cooperative groups had large amounts of capital at their disposal that could be used for financing external growth. Because of the legal restrictions on the remuneration of members' shares, cooperative banks have traditionally built up substantial reserves. However, these reserves are legally indivisible and are, in the strictest sense, the company's own equity. In addition, cooperative groups traditionally have surplus deposits and therefore lots of cash. The creation of a deposit guarantee fund to replace the mechanism shared by cooperative banks (1999), which is unique in the industry, also enabled some of them to free up capital that could be added to the funds available for growth. Moreover, cooperative groups were able to raise equity capital relatively easily and increased the range of financial instruments available to them (see below).

Lastly, even if this is hard to prove, it is not impossible that the government may have preferred that certain financial institutions were taken over by French cooperative groups, which could not themselves be the target of takeover bids, rather than run the risk of them falling into foreign hands or drastic job cuts.⁽⁶⁾ This assumed preference, while never clearly stated, can be interpreted as a modernized version of the "hardcore" interventionist policies (*politique de noyau dur*) of the 1980s but without direct government interference. It also represents another aspect of "economic patriotism" that is easier to accomplish and that was recently repeated when some listed industrial groups were the targets of takeover bids.

(6) As was the case for CCF, acquired by HSBC (2000).

How have the groups been restructured?

The current organizational charts of cooperative banking groups

From a relatively simple inverted pyramid, the organizational structures of the cooperative groups have become increasingly complex since the late 1990s. The way these groups were structured at the end of 2005⁽⁷⁾ was relatively varied (see diagrams below). Three types of organizational structures can be distinguished.

- The organizational chart for *Crédit mutuel* is still very diffuse. Conforming best to the original cooperative spirit, this organizational structure has a very high degree of regional autonomy and does not include any listed companies. Looking at it more closely, this type of organization may cause conflicts and is likely to change. Coordination inside the group is low, which is the counterpart to the autonomy of the regional banks. The subsidiaries are not owned by a national body but rather by (cross-) regional institutions. The IT platforms, although fewer of them, are not yet united.

(7) For a brief chronological survey of the recent restructuring of the cooperative groups, see the report submitted to the DIES (*op. cit.*).

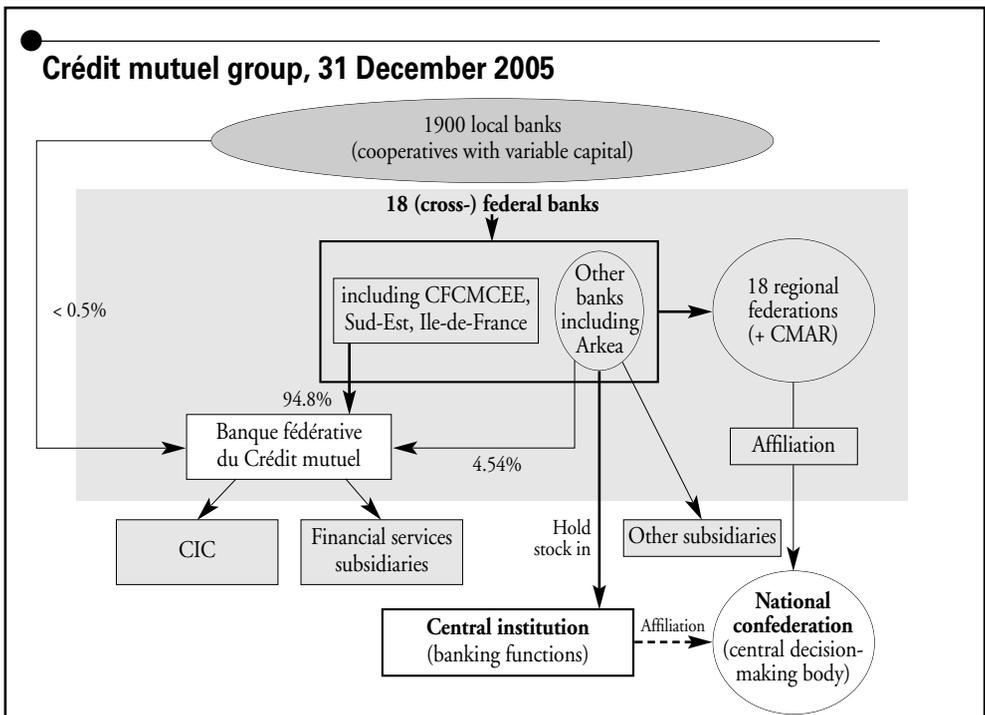
There are probably economies of scale that can be made there and unexploited possibilities to increase X-efficiency.

- The organizational charts for *Crédit agricole* and, still for the moment, *Caisses d'épargne* show a cooperative group isolated from the rest of the group, which controls all of the conventional subsidiaries through a central institution, which is itself set up as a conventional company. In the case of *Crédit agricole*, the central institution, *CASA*, is listed on the Paris stock market.

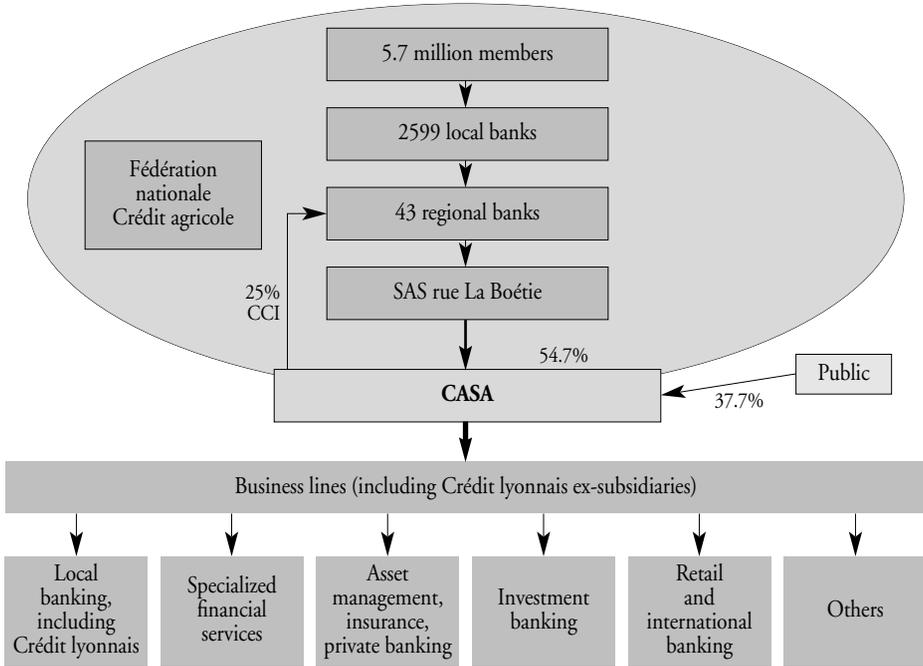
- The organizational chart for *Banque populaire* here, too, shows the cooperative group isolated from the conventional subsidiaries. The *BFBP* functions as both the group's central institution and the representative body of the regional banks. It is also the holding company of *Natexis-Banques populaires*, which is listed on the Paris stock market. *Natexis-Banques populaires* owns all of the group's subsidiaries except for the IT platforms. The agreement announced in March 2006 between *Caisse d'épargne* and *Banque populaire* is an unusual type of restructuring in which the two cooperative groups will remain independent and autonomous but will jointly own most of the subsidiaries⁽⁸⁾ of the two groups through the future, listed, holding company *Natixis*.⁽⁹⁾ The aim of the operation is clearly to achieve economies of scale and scope, to combine the strengths of the two groups' complementary businesses and thus create a company that can compete on the European market, to make it easier to raise capital in the

(8) Each group will retain their retail banking businesses, and certain subsidiaries will continue to be owned by *CNCE* (*CFE*, *Ecureuil lard*, etc.) for balancing the value of assets transferred to the new joint subsidiary.

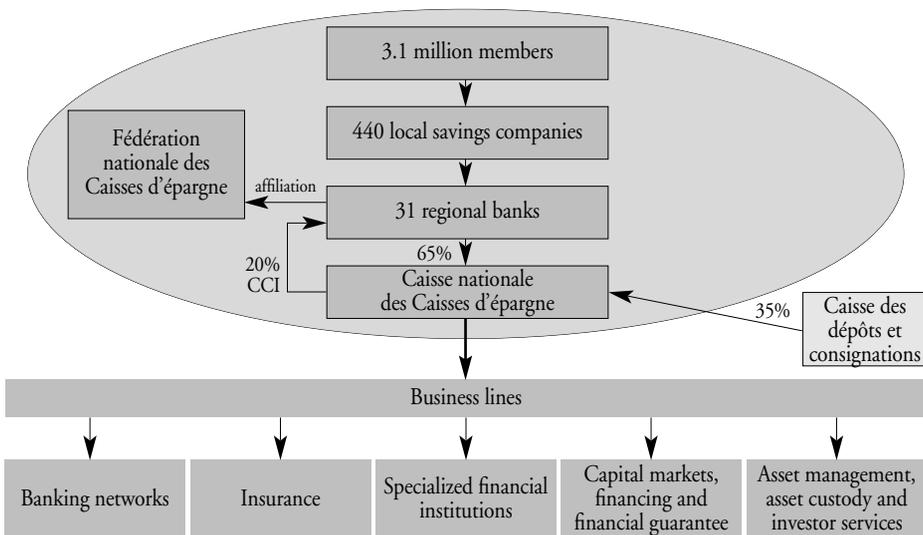
(9) Holding company derived from the transformation of *Natexis* (*Banque populaire*) and *Ixis* (*Caisse d'épargne*).

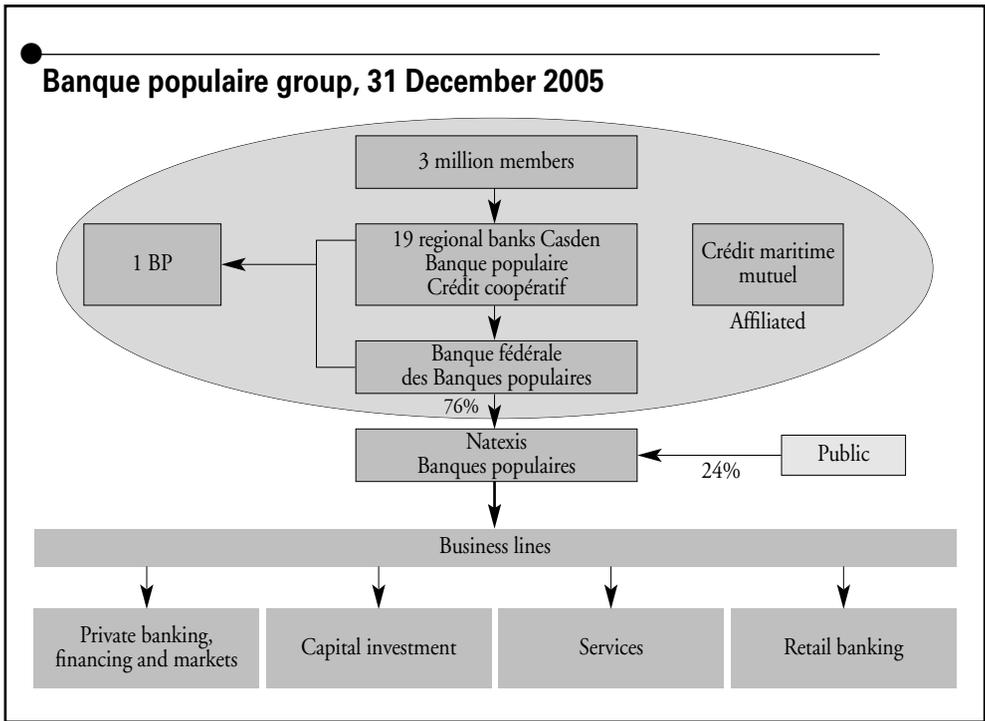


Crédit agricole group, 31 December 2005



Caisse d'épargne group, 31 December 2005





(10) Interview with C. Milhaud and P. Dupont, *Le Monde*, 14 March 2006.

(11) The one notable exception is mutual guarantee companies.

future by issuing stock, and to “create wealth, synergies and profits for shareholders.”⁽¹⁰⁾ If this project goes ahead, this will be the most significant development between two cooperative groups in France.

A constant: the presence of conventional companies in the organizational charts

Except for *Crédit mutuel*, all the French cooperative groups have holdings in subsidiaries that are controlled by a central body. These subsidiaries are all publicly traded companies,⁽¹¹⁾ but not all of them are listed on the stock market nor do they all fulfill the same objectives. They can be divided into the following groups.

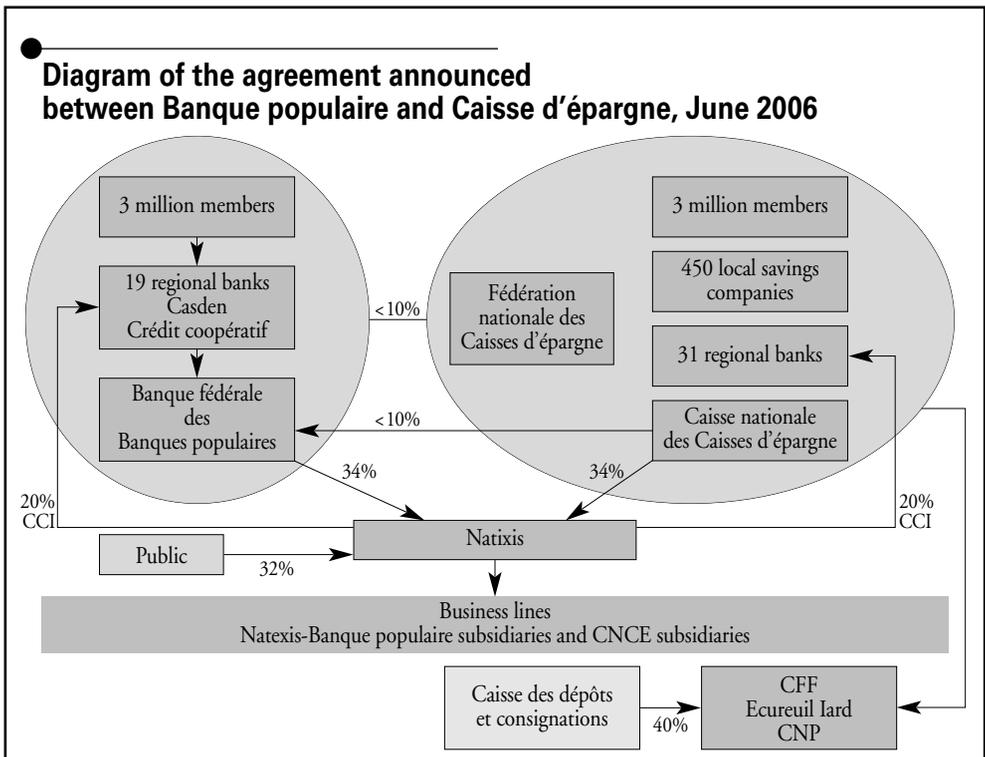
- Subsidiaries that provide direct support for the group or “technical” subsidiaries, which are mainly there for economies of scale. They are typically IT platforms, which are currently unified (except *Crédit mutuel*).
- The “production” subsidiaries. They develop new banking products and manage them for the whole retail banking network, which essentially turns into a distribution network. The products are uniform, which enables economies of scope and scale. *Crédit mutuel*’s and *Crédit agricole*’s insurance businesses are also expanding this way.
- Specialized subsidiaries for certain types of customers who are logically “captured” or “capturable” by the retail banking businesses. The objective is to offer and manage sophisticated financial products for specific types of

customers (wealthy customers, professionals, SMEs, large companies, etc.). These subsidiaries are involved in private banking, employee share-ownership and savings schemes, market finance, financial engineering, consultancy, direct banking, etc.

- Subsidiaries specialized in international operations. These provide the easiest way for cooperatives to extend their presence beyond the national boundaries.
- Other subsidiaries specialized in capital markets and corporate and investment banking. These businesses are not in competition with the group because they are not involved in retail banking, and enable the group to become a “universal bank.”

The different means used for restructuring

There are a variety of means that French cooperative banking groups can use to achieve internal and external growth. First of all, cooperative banking groups generally have substantial capital. By restricting the remuneration of members’ shares and limiting their claims to net assets, the cooperative legal form helps cooperatives accumulate larger reserves than conventional companies. In addition, there is a “solidarity” principle in French cooperative banking groups that allows the head of the group to raise capital through the regional banks if necessary. The range of securities has also grown in recent years. Besides membership



(12) CCIs pay a remuneration based on the issuer's performance (the regional bank) but do not confer voting rights. CCAs have the same characteristics but are reserved to members.

(13) This is the case of BFBP, the Banque fédérative du Crédit mutuel, CNCE and CASA.

(14) For example, CASAs €2 billion capital increase for the acquisition of Crédit Lyonnais, which was entirely guaranteed by the regional banks.

(15) Natexis-Banque populaire's case.

shares, hybrid-type securities can be issued that are deemed equivalent to equity: subordinated debentures, cooperative investment certificates (CCIs) and cooperative member certificates (CCAs),⁽¹²⁾ which can be easily sold because of the network's size.

Nonetheless, arrangements between a conventional group and a cooperative group are still hard to set up. The cooperative form prevents cooperative groups from exchanging shares as a way of taking over a company, and the right to have legal entities as members remains limited. Company acquisitions therefore have to be paid for in cash, which requires raising substantial amounts of capital. This is why cooperative groups have often created conventional companies inside their groups.⁽¹³⁾ These conventional companies can raise capital through share issues when they are listed on the stock market.⁽¹⁴⁾ They can also exchange shares, make takeover bids or even acquire a subsidiary holding company to fulfill this purpose.⁽¹⁵⁾ The constraint then is that the regional banks together keep the majority interest in the central body, and the entire group holds, directly or indirectly, a controlling interest in the subsidiaries.

As for the Caisse d'épargne-Banque populaire project, the arrangement turns out to be innovative. The project does not directly involve the two groups or two central bodies, which are supposed to remain independent, but rather consists of merging most of the subsidiaries of the two groups under the banner of a new entity called Natixis. Natixis is to be listed on the Paris stock market (32% float), but the majority of the shares will be jointly owned by CNCE and BFBP (34% each). After heated discussions, CDC, which until then was CNCE's largest shareholder with a 35% stake, left the new group in exchange for a cash payment on the order of €7 billion, a larger stake in Caisse nationale de prévoyance (CNP) and a majority stake in Ecureuil-Vie, an insurance subsidiary in which until then it had an equal stake with CNCE. Compared with a traditional operation for external growth, this huge operation does not require raising large amounts of capital and allows the groups to economize their equity capital and liquidities. CNCE's stake in Natixis is financed by a contribution in kind of its subsidiaries (part of the subsidiaries remain in its control to balance out the contributions of the two groups). Cooperative networks have thus become large hybrid cooperative groups with a "universal bank" function. However, the question can be raised as to whether this development is compatible with cooperative principles. Will the greater complexity and creation of hybrid forms that result from introducing conventional companies into the groups not have an effect on the rights and role of the members, on the consistency of the objectives of the companies that make up the group, and on the distribution of wealth created?

...leads to changes in relationships that can cause potential conflicts of interest

The recent changes in French cooperative groups have brought their structures, businesses and objectives closer to those of conventional companies.

Members are diluted among the customers and other capital providers, and the benefits and expectations that could have prevailed now slip away, since discounts found in other consumer cooperatives play only a marginal, or nonexistent, role in banking. The organizational structure becomes more complex and increasingly resembles the way conventional banking groups are set up; their markets overlap with those of conventional banking groups. These changes can cause new conflicts to arise that are related to the creation of wealth and its distribution, which have already been reported in the financial press.⁽¹⁶⁾ The diverging objectives and interests and opposition to the new division of functions and power are potential sources of conflict between owner-capital providers as well as even internally in the groups.

(16) The factual illustrations that follow in this section come from the daily newspaper *La Tribune*.

Potential divergences in objectives and interests between the different types of owner-capital providers

The presence of listed companies within the cooperative groups can potentially introduce a conflict of interest between the different types of owner-capital providers, i.e., between shareholders and cooperative members (and their representatives), whose objectives and concerns may be contradictory. The conflict comes from the latent antagonism between defending cooperative values and the requirement of financial profitability and could spill over to conflicts around the division of power and wealth.

Financial profitability objective and maintaining cooperative values

Until now, French cooperative banking groups have been careful to isolate the conventional subsidiaries in their organizational structure by making them dependent on a subsidiary holding company (Natexis) or the head of the group (CASA, CNCE) without being directly linked to the cooperative network itself.⁽¹⁷⁾ This set-up makes it theoretically possible to have different profitability objectives for the subsidiaries and the cooperative network itself, which also includes customer services, which constitutes another way of remunerating members. However, the question can be raised as to whether the existence of conventional subsidiaries—particularly when this concerns the head of the group—does not in practice introduce the constraint of maximizing financial profitability for all of the companies in the group, including the cooperatives. To keep its shareholders—and even more so, increase their numbers—the cooperative banking group probably has to have a return on equity comparable to that of conventional banking groups at the risk of hurting the network of local banks and members' services.

This can be seen when the central body imposes a “management by objectives” policy on the banks. Similarly, following the example of conventional banks and attracted by the concept of tellerless banking, cooperative banks are trying to cut back on businesses that do not create value added. They are encouraging customers to use ATMs for making deposits and the processing of checks and charging for withdrawals at the counter. At the same

(17) CIC's apparent particular position in *Crédit mutuel* is not actually an exception to this rule since CIC's majority shareholder is *Banque fédérative du Crédit mutuel*, an intermediate-level organization, controlled by CFCM-CEE (Caisse fédérale de *Crédit mutuel* Centre-Est-Europe, Sud-Est, Ile-de-France), which itself is owned by three regional federations.

time, they are greatly expanding their private banking businesses, often through a subsidiary dedicated to “upmarket” asset management, an activity that might seem unconnected with mutualist and cooperative values. In the new Caisse d'épargne-Banque populaire project, Natixis, which will be a listed company, will have a direct interest in the performance of the two cooperative networks through holding CCIs issued by the banks. The reasoning behind wanting to diversify and guarantee income for Natixis' shareholders can be understood, but will this not increase the pressure on the regional banks to produce profits that are compatible with return on equity requirements? It remains to be seen whether the interests of the member-customers can still be preserved and whether in time members will see their interests expropriated to the advantage of Natixis' shareholders.⁽¹⁸⁾

(18) In addition, Natixis' shareholders might see the local social economy projects (PELS, which the Caisses d'épargne have a statutory obligation to finance by allocating a part of their operating profits) as a reduction in their share of the profits generated by Caisse d'épargne's retail banks.

Conversely, the antagonism between cooperative status and the interests of the shareholders can be detrimental to the shareholders. The need for the group to maintain a controlling interest in the listed companies runs the risk of limiting the liquidity of the market for their shares and the flotation, which consequently lowers the share price. This argument has occasionally been heard in the case of CASA and more often for Natixis. This could have been the case for CNCE if it had been listed on the Paris stock market,⁽¹⁹⁾ since only a limited number of shares could have been issued on the market in order to comply with the majority shareholding rule for Caisse d'épargne and to keep CDC as the main shareholder. The size of the future listed company Natixis should put this problem into perspective, especially if CDC leaves.

(19) The planned public offering of CNCE on the Paris stock market was nullified by the announcement of the Caisse d'épargne-Banque populaire agreement.

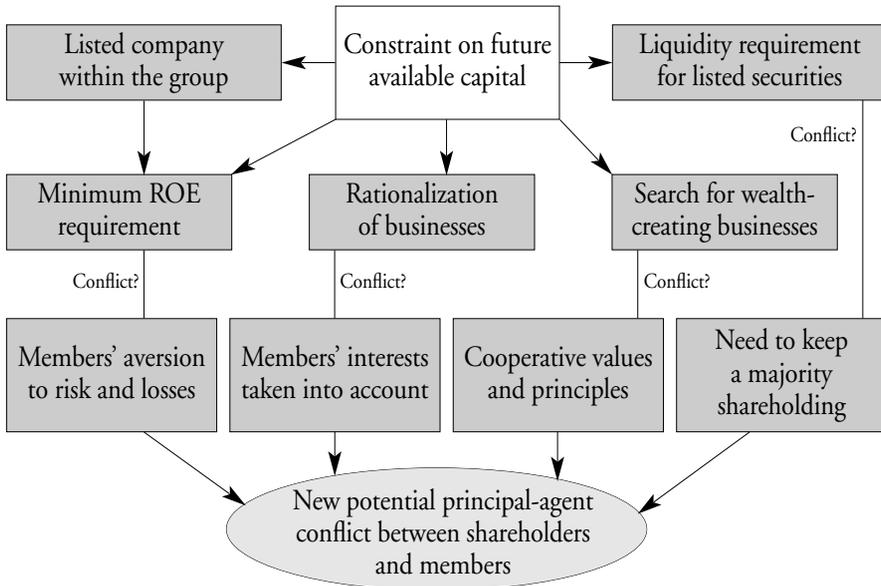
Potential conflicts related to how power and created wealth are shared?

This conflict between members and shareholders could also lead to another conflict related to how the wealth created and power are shared between entities in the same group. The recent tensions between Caisse d'épargne, Caisse nationale d'épargne (CNCE) and CDC confirm this. A few years ago, CDC felt that it did not receive enough income from the Caisse d'épargne's retail banks in return for the transfer of Eulia, and it argued for increasing CNCE's stake in the banks to capture this income as CDC itself held a 35% interest in CNCE. Fearful of greater control by the national body, the regional banks were strongly opposed to this.⁽²⁰⁾

The same type of conflict also appeared in Crédit agricole after it bought Crédit lyonnais. Although CASA held a 25% interest in the regional banks, which enabled it to consolidate a quarter of their earnings in its accounts, René Carron explained that, as the majority shareholder, the regional banks “*had a greater responsibility for creating wealth (...) but should not interfere in the operational management of CASA.*” In contrast, the regional banks strongly protested against having been excluded from the negotiations with Crédit lyonnais, although “*most of Crédit agricole's profitability came from the regional banks, which had largely financed the acquisition of Crédit lyonnais.*” Today, the tensions caused by Caisse d'épargne-Banque populaire project are evolving. In the beginning, the conflict appeared with CDC, which

(20) CNCE's stake in the banks' capital in effect increased from 10% to 20% through issuing CCIs.

Chart 1
A potential principal-agent conflict between shareholders and members?



(21) This agreement gives the right to veto, until 2007, “any investment or divestiture, any transfer, merger or split, or any joint venture or partnership valued more than €250 million” (*Les Echos*, 16 March 2006).

(22) Chairman of CDC, *Le Monde*, *ibid.*

(23) The issue of the balancing of the value of assets, as CNCE’s contribution to the project has a higher value and Natexis’ share price would benefit from the rumors of an agreement, prompted CDC’s chairman to say in a letter addressed to C. Milhaud that CNCE comes out of the deal as the loser without any compensation for its shareholders (*Les Echos*, 18 April 2006).

(24) As a result of CDC’s withdrawal, CNCE should control about 40% of the shares of the new group, 6% of which would be resold on the Paris stock market, enabling paying CDC the remaining amount due at a later fixed date.

(25) *La Tribune*, 30 May 2006.

felt that the “shareholders’ agreement” linking the two entities, in existence since the transfer of the investment bank Ixis’ assets to CNCE in 2004, had been broken.⁽²¹⁾ CNCE’s acquisition of Ixis can be seen in retrospect as a way of acquiring a company that could enable reconciling the agreement with Banque populaire and the listing, or even the ousting of CDC, and not as a simple restructuring operation just to enable economies of scope and scale. F. Mayer⁽²²⁾ also argued that the plan was “unacceptable from the point of view of preserving the assets of CDC, a public institution, (and) presents a real problem of balance⁽²³⁾ and clear leadership, which is needed for a merger to succeed.” After very hard bargaining, CDC decided not to use its power of veto and instead to dispose of its holdings in CNCE for a substantial cash payment. This decision seems, however, to have revived tensions between CNCE and Caisses d’épargne, who until then were rather satisfied with the plan. Caisses d’épargne will have to subscribe to a €1 billion capital increase to finance CDC’s withdrawal. The balance (€6 billion) is intended to be financed by the gains made from selling CNCE’s shares in Natexis on the Paris stock market.⁽²⁴⁾ Caisses d’épargne question the risks involved in these ways of raising capital as well as in reducing the group’s equity capital.⁽²⁵⁾

Questions can also be raised about the stability of the relationships in the new group—a listed holding company equally dependent on two heads of

groups, a supervisory board with a rotating chairman and a management board without, etc. Will this arrangement last or will the Caisse d'épargne-Banque populaire alliance eventually change to the advantage of one of the two partners?

A threat to the internal cohesion of cooperative groups?

The growing complexity of groups and the increasing constraint of financial profitability may also threaten the internal cohesion of cooperative groups, both in terms of the relationships between cooperative entities within the same group and in terms of labor relations.

The danger of fratricidal competition between cooperative entities

The growing complexity of groups may lead some of their constituent entities to perceive each other as competitors rather than parties joined by a common objective. For example, inside Crédit mutuel, a rivalry developed between two federations. The Nord-Europe federation accused the Centre-Est federation of using its CIC subsidiary as a competitor in a region where up until then it did not have any branches. Similarly, the delicate division of new projects from restructuring can cause managerial inefficiencies, or even entail agency costs related to internal competition between the various companies in the group. Crédit mutuel's inclusion of the CIC network caused conflicts with CIC's regional banks, who saw their autonomy reduced and feared for their future. Similar tensions developed between Crédit agricole and Crédit lyonnais. Crédit agricole's regional banks were against SME customers being handled by the investment bank, as was the practice in Crédit lyonnais. During the same period there was also fratricidal competition at various management levels concerning power-sharing between high-level managers and other parts of the business (fearing job losses and the marginalization of positions, management teams in both groups tried to impose their company's model of HRM, risk management, etc.). These tensions were later reduced.

As for the Banque populaire-Caisse d'épargne project, tensions could appear at various levels:

- at the management level of the "super group" if Banque populaire's operational authority, based upon its majority on the management board, turns out to be too imbalanced;
- between the two groups if further business lines are merged in the new company Natixis;
- lastly, in retail banking, since the two groups have in principle complementary customer bases, but Caisse d'épargne is looking for new business in the SME sector, and Banque populaire is looking for new private customers while, in addition, contesting in the courts, like Crédit agricole, the monopoly of the "livret A" taxfree savings accounts. The competition between the two cooperative groups could also increase if management decides to cut costs by closing down branches, which would have potential consequences for Caisses d'épargne, whose earnings have dropped,

(26) *Le Monde*, 23 March 2006.

contrary to the rest of the group, and whose main indicators of performance (return on equity and operating ratio) have not been as good as its competitors.⁽²⁶⁾

A greater risk to social cohesion

Until now, cooperative groups have had a relative degree of internal social cohesion. However, restructuring is inevitably accompanied by cost-cutting measures to satisfy the objectives of minimizing costs and maximizing profits. In these conditions, the employees of the target company absorbed by the cooperative group, or even the employees of the whole group, may react with hostility. In the *Crédit agricole* group, there was an obvious deterioration in labor relations after the decision was announced to cut a large number of jobs⁽²⁷⁾ following the takeover of *Crédit lyonnais*. Similarly, the employees of *Compagnie parisienne de réescompte* (CPR), which was taken over by *Crédit agricole-Indosuez* (CAI) in 2001, strongly protested against the closing of their bank, layoffs and the lack of redeployment and even accused CAI of “*carving up a profitable bank just to get the parts that interested them.*”⁽²⁸⁾ The Natixis plan is likewise causing strong opposition from organized labor throughout the federations, particularly because of rumors about possible job cuts.⁽²⁹⁾

(27) Between 1300 and 1500 jobs were cut in the investment bank and 2500-3000 in total in France.

(28) Claude Millet, secretary of CPR's works council (*La Tribune*, 30 April 2002).

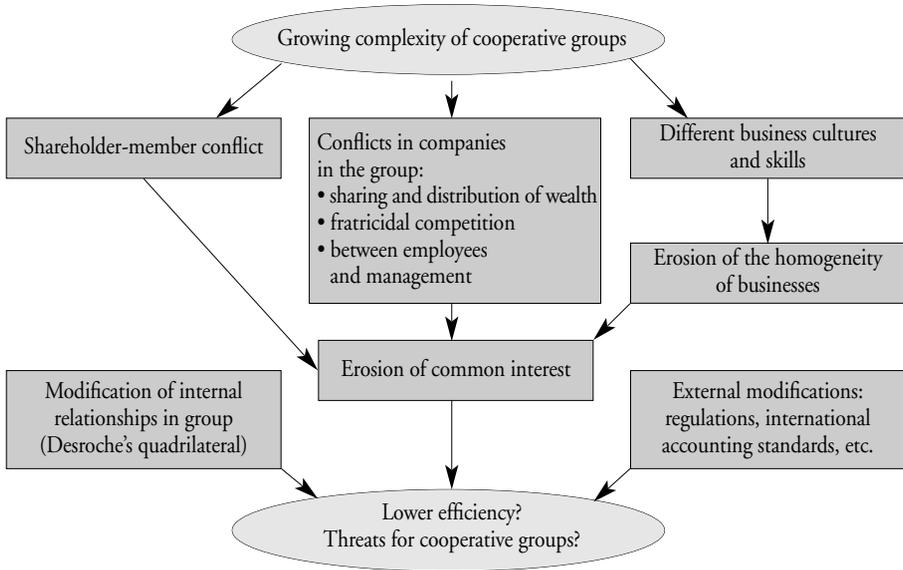
(29) *Le Monde*, 1 April 2006.

In France, the increased volatility of groups' profits connected with business expansion has not yet affected cooperative groups themselves as happened in the Netherlands with Rabobank and in Germany with DZ Bank (announced job cuts). However, in 2003 the Fitch ratings agency downgraded the medium- and long-term prospects of Natixis and the entire *Banque populaire* group because of losses on the financial market, although the retail banking business was doing well. This is a reminder that market forces can have consequences for the group's members and employees and become a source of internal conflicts, which the employees are unaccustomed to.

In the regional and local banks, this risk of conflict is even greater as the employees are older—there is a tradition of a strong cooperative culture and respect for the customer-member's common interest—and the requirement of financial profitability is spread across every level of the cooperative group (management by objectives, use of RAROC analysis, appointing managers from outside the cooperative movement, etc.). Conversely, the risk seems lower if the membership is more recent and less aware or if the workforce is younger and believes in the profit-risk objectives that it has been trained in. To reduce these differences in business culture and practice, cooperative groups have been increasingly running courses for their employees to raise their awareness about the particular features of the cooperative form.

Chart 2 summarizes the main problems and conflicts that can limit the efficiency of the universal group strategy. It shows that the concept of a common interest could well be a limiting factor if it is too diluted and too opposed to the law of shareholder value becoming dominant.

Chart 2
Effects and problems of the growing complexity
in the organizational structures of cooperative groups



Conclusion: a modification of the fracture in Desroche's quadrilateral

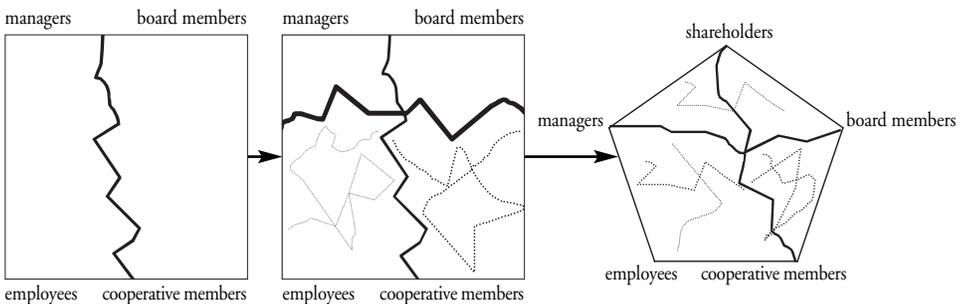
The recent restructuring of the cooperative groups modifies their internal relationships. The growing complexity of the organizational structure, the increasing sophistication of financial products, the loss of identity and dilution of the original membership and their involvement in favor of the “member-saver,” the juxtaposition of different business cultures, and the requirement of greater profitability are all changes that shift the balance of power towards the top of the pyramid, i.e. away from the rank and file members, or even their representatives, and towards the national body and paid executives. From the classic organizational structure of the cooperative as an inverted pyramid, in which the rank and file members control the peak of the pyramid through elections (the expression of democratic power), the organizational structure increasingly resembles that of conventional groups in practice, in which the head of the group is dominant and decision-making concentrated. In other words, these changes are potentially accompanied by changes in the nexus of contracts and places of conflict in a cooperative organization. Desroche (1976) had represented the relationships and division of power in cooperatives using a quadrilateral with the different actors shown in the four corners: managers, employees, board

members and cooperative members. The main fracture separated the executional sphere (employees and managers) from the decisional sphere (board members and cooperative members). Now, other fractures may appear:

- between the decisional pair (managers and board members or CEOs and chairmen) and another pair that has become more passive (employees and rank and file members). This new split has already been observed in agricultural cooperatives after restructuring (Koulytchizky and Mauget 2001);
- between employees and managers and among employees themselves if a conflict develops between the business culture and cooperative and mutualist values;
- among members themselves if they are motivated by different interests (remuneration of shares versus social responsibility and cooperative values or taking into account the interests of the founding members);
- lastly, the classic quadrilateral, while capable of summarizing the interest groups in a cooperative, has become obsolete because understanding the banking industry today can no longer be based solely in terms of the individual entity (local or regional bank) or even the network of branches, but rather needs to be based in terms of the group in its entirety. Furthermore, the arrival of conventional companies in these groups and the existence of shareholders at various levels (corporate shareholders, private shareholders, and employee shareholders) have transformed the classic quadrilateral into a pentagon in which shareholders occupy the new corner and represent another potential source of conflict (members versus shareholders or among shareholders themselves, as CDC's reaction to the Natixis plan shows, etc.).

In the end, finding a balance between these different interest groups or stakeholders in terms of the group's objectives, the division of power, and the distribution of the wealth created is the central challenge facing French cooperative banking groups today, and without that their internal cohesion and capacity for growth could be affected. ●

Chart 3
From Desroche's quadrilateral in cooperatives
to the pentagon in cooperative banking groups



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