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Evidence of democracy among associates: the case of local general assemblies of French cooperative banks

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I. Introduction

The democratic goal is one of the strong justification of the assertion on the internal scale as well as on the external one of the specificity of social economy, in France (Charte de l'économie sociale, CNLAMCA, 1995), on the European level (Charte européenne de l'économie sociale, CEP-CMAF, 2002) and on the international one (Déclaration sur l'identité coopérative internationale, ACI, 1995 ; Préambule des statuts, AIM (Mutuelles de santé), 2008). Beyond the supposed ethic virtue of democracy, the governance of associates would include three advantages in comparison with shareholder governance: the conciliation of market efficiency and the fulfilment of the social needs of the community members; better risk management (less anti-selection and moral hazard) because of lower information asymmetry; strong local implantation enabling banks to have better knowledge of their customers and to develop mutual trust; institutional stability coming notably from the impossibility of takeover bids and relocations (Richez-Battesti, Gianfaldoni, 2008). Though many recent works underline its present fragility because of the managers' increasing power, the institutional isomorphism, the development of human resources management, the development of company subsidiaries in cooperative groups, the concentration of decision places... (see for example ISTECH, 2007). The various questions express as many doubts about the reality of the democratic project in very large social economy structures.

Several studies have analyzed the relations between managers and the Board of directors (particularly Spear, 2004, Cornforth 2004, Fontaine, 2007), but no academic work did specifically focus on the proximity of general assemblies of large firms in social economy – at least as far as we know. However, the annual assembly is supposed to be the most democratic moment. It enables elected people to express the trust they have in associate members in return for the trust the latter have in them. There are obviously other communication opportunities between the structure and its members (firm letters, internet forum, associate members club, personal appointments with administrators, associate members mail...). But the general assembly is the unique collective meeting where the whole associate members community is invited (and even « summoned ») to make people hear its voice through free talk and votes approving or not the past and future orientations of the managers' decisions (approval of the accounts, appointment of new administrators, capital increase, presentation of the future strategy).

The general assembly is the moment of the contractual meeting of both responsibility logic – the switch from client to associate shows the commitment, the will to take part in the project, and the participation at the general assembly – and political logic with a mix of transparency, confidence, legitimacy and authority. As a consequence, the general assembly is also one of the moments when some breaks appear in the famous Desroche quadrangle (1976). This quadrangle symbolizes the relations and the sharing of power in cooperatives, and each angle represents managers, employees, administrators and associates. Among the various possible breaks between the 4 corners, two of them may be more particularly examined while studying the process of local general assemblies: 1) between managers (or managers and administrators, and/or directors and CEOs) and basic associates; 2) between associates themselves.

Malo (2001) proposed another scheme of governance in social economy, using a sandglass where, contrary to the classical pyramidal model with directors at the top, the general assembly lies at the top (the top management is located at the neck between the top of the sandglass - governance done by the group of people – and the bottom - the relation between industry environment and the firm). Thus, it is interesting to assess the tangibility of associate-driven governance while analyzing the place where the values of participation and

discussion are supposed to develop freely.

In this paper, use an empirical approach based on the articles of the local banks of the four French cooperative networks and the process of some local general assemblies. The choice of the banking sector is not neutral for three reasons:

- it is a core element of the capitalist system, where paradoxically the social economy is highly powerful, and even dominant as in France. French cooperative groups (Crédit Agricole, Banque populaire-Caisse d'épargne, Crédit Mutuel) represent 60% of the deposits, 40% of the credits, 50 billion euros of bank sales and 3,000 billions of total assets. In Europe, the 4,500 cooperative banks own from 15 to 20% of the deposits (Source: EACB). Potentially, this could be a tremendous gearing to spread the democratic project of the social economy¹ ;

- French banking networks include about 100 regional banks and more than 4,500 local banks – and thus as many annual general assemblies – which gather more than 20 million associates and 64,000 elected administrators. Facing this, the two major French « capitalist » banking groups (Société Générale and BNP-Paribas) offer only one annual general assembly located in Paris to their 110,000 associates, the power of which is proportional to the capital share owned. And their Boards of Directors include only 14 and 17 members respectively, most of them being CEOs of large firms², if we exclude the two legally compulsory administrators elected by the employees. These data (see also table 1 below) show the amplitude of the democratic and territory anchoring potentialities of cooperative banks. In social economy, only some health mutual banks (through their local agencies) or insurance companies (through the number of their associates) have a comparable size;

- Ory, Jaeger and Gurtner (2006) studied the emergence of limited companies in cooperative banks (listed companies like Crédit Agricole SA (CASA), Natixis, and subsidiaries Crédit Lyonnais, CIC...) and suggested transforming the usual Desroche quadrangle into a pentagon, in which shareholders create the new angle. De facto this transformation creates de facto two types of general assemblies, one of associates and one of shareholders, related to two different governance projects.

Our paper begins with an analysis of the position of associates in governance literature in social economy. Then, with the example of the annual assemblies of local French cooperative banks, we propose a thorough discussion of the ways to express the four democratic values of the social economy: free membership, equal voting rights, free implication, and absence of profit goal. Lastly, we infer some indicators to evaluate the « democratic vitality » of social economy organizations.

Table 1: Socio-economic comparisons of French banking networks

2008	Crédit agricole	Caisse d'épargne	Crédit mutuel	Banque Populaire	<i>Société générale (France)</i>	<i>BNP-Paribas</i>	<i>La Banque Postale</i>
Creation date of the first bank	1885	1818 (became a cooperative in 1999)	1899	1878	1864	1966	2006 (1918 for the CCP)

¹ L'EACB (2004) classifies the contributions of cooperative banks in four categories: 1) they help the efficiency of the banking system and as a consequence the economy; 2) they offer an accessible and high quality service ; 3) they work actively at the local level 4) they strengthen the stability of financial systems.

² 98 persons represent 43% of voting rights in Boards of CAC 40 firms (*Le Monde*, 12th January 2010).

Customers	20 M (individuals)	27 M	15,3 M	9.4 M (8 M individuals)	9 M	6 M	29 M
Associates	6.2 M	3.7 M	7.2 M	3.5 M	90 000 shareholders	22 000 shareholders	1 (State)
Administrators	32 900	4100	24 000	284	14	17	13
Number of agencies	7400	4780	5148	3390	2997	2200	12700
Number of Regional banks	39	17	18	18 (+CASDEN + Crédit coopératif)	-	-	-
Number of local banks	2549	287	1830	- (1)	-	-	-
Employees (France)	41 000	51 700	60 000	44 000	59 000	64 000	30 000
Total income	16.7 billion	8.4 billion	10.6 billion	7.4 billion	7 billion	6 billion	4.7 billion
Total equity	63.7 billion	18.6 billion	24.7 billion	17.7 billion	27.2 billion	53.8 billion	3.7billion
Values (institutional communication)	"A long term relationship changes life"	"Ambition, confidence, commitment"	"The bank you talk to"	"Boldness, cooperation, man"	"We are here to help you"	"The bank of a changing world"	"Far more than a bank"

Sources: Annual reports of the banks

II. Governance theories, shareholders general assembly, activists general assembly and associates general assembly

The associate's characteristics require a theoretical analysis including the situation of both shareholder and activist. We will therefore study associate governance first in terms of corporate governance, then in terms of political governance.

Agency theory and social economy

Membership of associates³ differs from shareholding in three ways: 1) individually, associates are clients and collectively, managers; 2) the ownership of share(s) of capital gives the right to a limited annual compensation only (regulated by the Law of 1947⁴) and cannot lead to capital gain (sale at buying price); 3) votes are given according to the « 1 member = 1 voice » principle, without any relation with the capital owned. Because of these differences, many authors (Cornforth 2004, Giandaloni and Richez-Battesti 2006) think that the stakeholder approach of governance fits the analysis of cooperative governance better than the shareholder approach. We do not question this viewpoint, but focusing on our general assemblies study, we use the second one in this paper. Indeed, the general assembly, whether it includes shareholders or associates, is the place where ownership power is expressed - the other stakeholders (customers, employees, suppliers, citizens...) are not allowed to attend it – which, according to the definition of power of H.Mintzberg (1982) means, « *the ability to*

³ Associate governance strictly speaking (associates with a capital share) concern farmers, craftsmen or merchants' cooperatives, consumers' cooperatives or saving or credit ones. Even if the legal, environmental or financial characteristics are different, the governance logic is pretty close in employees' cooperatives (SCOP), or insurance and health mutual banks.

⁴ Cooperatives can only pay to their chares an interest which rate is at most equal to the average bond rate of private companies.

produce or modify organizational results, to have what we want done in order to obtain what we wish ».

The owners of a firm may either rule it themselves, or appoint managers to rule it on their behalf. But there is a risk, called moral hazard, that the managers do not fulfil their contract properly. According to the agency theory (Jensen and Meckling, 1976) the main problem for shareholders (the principal) is to incite managers (the agent) to maximize the firm's returns. One way to achieve this is to make the managers' compensation partly depend on the firm share price. The governance problem is intensified in the case of atomized ownership. Small shareholders have neither the information nor the required power to implement the decisions they favour. Thus, this creates the conditions of too large a freedom to act for managers, who may receive a status rent with no danger to be fired.

Then, the question is how to ensure that managers act in the interest of shareholders. The answer lies not only in the incentives given to managers, but also in the organization of collective actions by shareholders. The research of information for rational agents should theoretically stop when the marginal profit they are expecting from it do not exceed the marginal cost anymore. Small shareholders are little motivated to look for information as it is quickly expensive and gives them little profit. Indeed, their ability to use it is highly limited, and they depend on the « free » information given to them by the managers. Thus, the solution for small shareholders is to gather in some homogeneous coalition regarding associates' interests, and avoid some of them having any « free rider » behaviour as they want to save the costs related to coalition building. In this perspective, Van der Burg and Prinz (2006) identify a three-step process. First, small shareholders choose representatives able to defend their positions. Second, with the help of major shareholders who are better informed and more powerful, these representatives choose the members of the top management (Board of Directors or Supervisory Board). Third, this team chooses the CEO of the firm, assesses his decisions and approves them, or possibly replaces him.

What about social economy, where the associate instead of the shareholder is the agent? For most authors, the very principles of associate membership increases moral hazard:

- the limit to one single vote, whatever the capital share refers to, is the extreme case of a totally scattered shareholding, and is never seen in companies,. By nature, there are no « big associates », no blocks or shareholder agreements, no independent administrators or institutional investors, who have the resources and/or the voting power to actively and continuously control executive employees and elected executives. On the other hand and paradoxically, if the firm is listed, there may be some « large shareholders »⁵ able to gather their own information and able to impose their own decisions to managers (during the general assembly of the company), while possibly harming associates.

- managers do not run the risk of being punished by the market through a hostile takeover or a stock price drop. They cannot be incited by stock options either, except if there is a listed subsidiary.

- the legal limit of annual compensation, the impossibility of capital gain and the prohibition of reserve sharing only create a very small financial profit for the associate⁶ compared to the analysis requirements and the challenges of the general assembly attendance. This profit is thus disproportionate compared to the influence of its single vote effects⁷.

⁵ The floating only represents 32% of the capital of Natixis and 39% of CASA.

⁶ An associate owns on average 900€ of shares in Crédit Mutuel and 1060€ in Caisse d'Épargne.

⁷ Sometimes he doesn't even know their implications. Coté (2007) mentions « a context where a large majority of members do not know about their particular relationship with the cooperative ».

- the multiple goals of the associates (quality-price ratio of the services, collective utility, solidarity, sustainable return...) create two problems : 1) it is more difficult to control and measure managers' performances, whereas in shareholding governance the stock price is the single performance indicator ; 2) these many goals may be variously spread between members (notably through the dilution of the original associate membership and identity), whereas all shareholders simply expect return.

In the context of social economy organizations, the agency theory lays the stress probably too much on property rights and financial rationality⁸. May we expect that the active commitments of associates balance the difficulties to control managers?

Theory of democratic degeneration and social economy

Chaves and Sajardo-Moreno (2004) underline that there are two theories in social economy which refer to internal control and democratic degeneration (favouring a minority at the expense of the majority).

The first is that of Michels (1911), known as « Iron law of oligarchy », which focused on the study of unions and socialist parties of that time. According to this author, democracy requires organization, but inside organizations there is a tendency to create an oligarchy. His theory is based on two hypotheses: the first one is that the ability to manage on both professional and social levels is unequally distributed among members of a democratic organization (a minority exhibits higher qualities concerning these aspects), and the second one is that size and growing complexity of democratic organizations require more stability among managers. He then infers that because of the division of labour and of organization growth, there is a need for « professional managers ». This process is then reinforced because of the charisma of leaders and the followerism of the other members who agree to give them a larger leeway.

The second theory is that of Meister (1974) who extends Michels' theory in a dynamic approach, and applies it to democratic organizations which have economic activities. He identifies four steps in a general process of internal transformation (or degeneration) of democratic organizations (associations and cooperatives) in firms, during which the power of managers (administrators) increases and becomes hegemonic while the economic goals overshoot social and self-management ones. These steps are conquest (direct democracy and few economic activities), economic transition (delegated democracy and extension of economic activity), coexistence (emergence of managerial power and dominant economic development), and administrative power (managerial power and complex economic development). Then the power of managers in social economy increases for two types of reasons. On the one hand, there are some technical and economic ones, on the other hand, there are some organizational ones, the same as in capitalist firms.

According to Chaves (2004), there is also a risk of some collusion between administrators and managers, as they come from the same economic, political or cultural elites. They share the capitalist sector values of interpersonal competition, welfare through material ownership, idealization of the market, and may undervalue such values as democracy, satisfaction of social needs and poverty problems. This might even lead to

⁸ Richez-Battesti (2008) talks about the bounded rationality theory of Herbert Simon (1976), which induces a satisficing logic. Because of a limited capacity to analyze information and of the weight of social norms, the agent chooses familiar models of behaviour (procedural rationality) that lead to solutions he will consider as personally good enough, but that are not optimal in absolute (no substantial rationality). This may generate within associate membership a priority to the wish for consensus on a project instead of the maximization of value creation.

associates being seen as burdens. Elected and employee managers then choose a financial entrenchment strategy (retention of strategic information), institutional entrenchment (adaptation of articles) and political entrenchment (selection of associates regarding their relative return instead of the sharing of a project, cooptation of the new members of the Board of Directors).

Here we can find the analysis of the « technician system » described by Jacques Ellul in his book *L'illusion politique* (1977) and for whom « *democracy is no more a way to control power but to control masses* ». Taking the example of cooperative banks, Gianfaldoni and Richez-Battesti (2008) perfectly show this transition from a « control-democracy », in which administrators are really controlled by associates, to a « coaching-democracy » : « *Not only representative democracy is controlled through formal mechanisms (general assemblies in most cases), which are implemented by a top management including elected administrators who are helped by an efficient technostructure, but the participative democracy is not very consisting on strategic questions in local or regional councils (...). The image of associate was originally built on both owner and user aspects, but it tends to fragment and then shrink to a moral support (local administrators) and a loyalty instrument (for the benefit of consumers).*»

We will now assess the validity of this two (pessimistic) reading grid of associate governance in local general assemblies of French cooperative banks, through the articles and our own observation⁹. We will perform this while using the four democratic values of social economy: free membership, equal voting rights, free implication, absence of profit goal.

III. « Free membership open to everyone »: becoming associate to attend the general assembly

Free and voluntary membership is the first principle of associate governance. It guarantees responsible commitment with comprehensive knowledge and responsibility included in fundamental mutual and cooperative values (ACI, 1995). It takes form in cooperative banks through the purchase of at least one share¹⁰, at a fairly low price¹¹. This first principle may be assessed with the articles¹² of local banks and the commercial practices in agencies.

The double quality

One of the core cooperative principles is the double quality of the associate¹³, as user as well as co-owner. « *Then, there isn't any reason for interest conflict between shareholders and*

⁹ To know more about a full description of two general assemblies, see Caire (2009).

¹⁰ Crédit mutuel is the only one to distinguish shares A without dividend and with voting right from shares B with dividend (available for those who own at least one share A).

¹¹ 7.50€ at Crédit Mutuel ; 15€ at Crédit Agricole ; 16€ at Banque Populaire (on average because it may vary regionally) ; 20€ at Caisse d'épargne (16€ for the first share).

¹² Our analysis below is based on the articles of three local banks (Crédit Agricole of Chauvigny, Caisse d'Épargne Nord Poitou – Haute Charentes, Crédit Mutuel of Chauvigny) and one regional bank (Banque Populaire Rives de Paris). The articles may slightly vary between local banks within one group, but type articles dominate.

¹³ Associate membership is open to individuals and corporations (and to local public institutions at Crédit Agricole (list established legally), and at Caisse d'épargne there is a 20% capital ownership ceiling for each local bank). At Caisse d'épargne at the national level, 93% of associates are individuals, 4% are associations and firms, 2% local public institutions. We can also notice that 55% of the employees in Caisses d'épargne are associates and represent 0.8% of all associates (Source: Annual report 2008).

customers » (EACB, 2007). In our case, membership would mean becoming both customer and bank associate¹⁴. Nevertheless, as the monetary and financial code allows it, as an exception to the Law of 1947¹⁵, the articles of local banks do not systematically apply the double quality principle:

- none of the four banks requires the associate to be a customer. However, according to its articles, Crédit Mutuel gives loans to its associates only;

- at Caisse d'Épargne and Crédit Agricole only the customers of the regional bank may become associates. Differently, at Banque Populaire and at Crédit Mutuel, one can be an associate without being a customer. However, Crédit Mutuel includes a territorial criterion: the associate has to « *live or work or have a personal or family interest in the area of the bank* ».

Thus, the double quality and the territoriality rule are not systematically applied in French cooperative banks. The impossibility of a conflict arising is not as simple as announced, as there are some associates, probably a rare number, who are not customers, and especially, customers who are not associates. They are even the majority in this last case for 3 banks: the associate/client ratio was 42% in 2008 at Banque Populaire (among individual customers), 29% at Crédit Agricole, 15% at Caisse d'Épargne¹⁶. Only Crédit Mutuel has a majority of associates among its customers (65%). Interests of clients and associates thus do not always converge, particularly if the associate group is not representative of the customer group regarding age, social category or banking difficulties¹⁷. Indeed, at Caisse d'Épargne, « *associates mostly belong to loyal and high commercial potential segments. They own twice more products and the bank operating income per associate is three times higher, compared to an ordinary customer* » (FNCE, 2007).

Free entry and exit

Statutorily, in the four banks, application to associate membership has to be agreed by the Board of Directors. But none of the banks explains what the reasons to refuse it may be, and Banque Populaire clarifies the point by saying that « *the Board of Directors doesn't need to explain its refusal* ». Meanwhile, Crédit Mutuel mentions that « *the Board of Directors cannot subordinate the membership of associates to any condition of political, labor union or religious belonging* ».

Free membership also means free exit. If voluntary resignation (with refunding of the

¹⁴ As a historical founding element of the history of cooperative banks, the limitation of associate membership to some jobs (farmers at Crédit Agricole, merchants and craftsmen at Banque Populaire – we still can find some hints of it in the monetary and financial code, see L512-22 for Crédit Agricole and L512-2 for Banque Populaire), is nowadays very marginal: CASDEN-BP and Crédit Mutuel Enseignants, Crédit Mutuel des professions de santé.

¹⁵ « Cooperatives cannot offer their services to non-associates, unless the particular laws that apply to them make it possible » (Law n°47-1775, 10th September 1947 about cooperation articles, art. 3).

¹⁶ The last ratio has to be used carefully. The exclusive distribution of Livret A until 1st January 2009 inflated the number of customers of Caisse d'Épargne to nearly half of French people. According to Fédération Nationale des Caisses d'Épargne (FNCE), ¾ of associates have Caisse d'Épargne as main bank, and the remaining ¼ has only a Livret A. According to our calculations, the associate membership rate (using only account owners) would be close to 30%.

¹⁷ It is very tricky to evaluate this point. Banks do not publicly communicate about the composition of their customers, because of an understandable commercial confidentiality, and very few about their associates composition, which is more amazing if we consider democratic transparency. We only have some data from FNCE: among associates there are 54% women, 30% are under 40, 70% live in a city under 20000 inhabitants, 70% have been customers of Caisse d'Épargne for more than 20 years. As customer data are not publicly disclosed, it is impossible to assess the structural differences between associate membership and customers.

share) is always possible in the four banks, the associate may also be excluded, against his will, by the Board of Directors. In the articles of the four banks¹⁸ we find the following two reasons to justify exclusion:

- non refunding of loans, being banned from check use, personal bankruptcy, « large financial losses », legal liquidation, imprisonment...

- acts against the interests of the regional or local bank, without other detail for Caisse d'Épargne, « *through deeds or talking that may harm the function of the bank* » for Crédit Agricole, « *through obvious harm of the firm's interests* » for Banque Populaire. Crédit Mutuel limits the possibility of exclusion to the case when the associate « *forces the bank to use legal means against him* ». However, for the four banks, this fairly discretionary power given to the Board of Directors is controlled because the general assembly has the last word, after a potential audition of the associate.

Commercial practices and motivations of associate membership

From the commercial practices viewpoint, customer advisors communicate and often sell shares while presenting them as secure investments with regular return, instead as an act of cooperative commitment. Financial incentives to sell shares make them act this way, and even makes them force sales while wrongly arguing that associate membership is mandatory to open an account or to obtain a real estate loan. Moreover, legal information about articles of local banks, and thus about the rights and duties of associates, is neither systematic when shares are bought, nor easily accessible in agencies or on the website of the bank¹⁹. As a consequence, a « saving associate membership » may emerge, or even a constraint membership, instead of a true membership, because of a utilitarian and consumerist logic. As a matter of fact, the Observatory of associate membership of Caisse d'Épargne found three types of associates in 2003: 15% « *motivated associates, particularly sensitive to the values promoted by Caisse d'Épargne, who bought shares to enforce their membership. For them, being an associate means being implicated in the life of Caisse d'Épargne* » ; 16% associates that may be motivated but with more fuzzy motivations, and 69% « *spectators for whom being associate first means receiving dividends or being a privileged customer enjoying offers or particular services* ».

A study (EACB, 2007) about 10 cooperative banks in six European countries (Austria, Finland, France, Germany, Italy, Netherlands) exhibits a very different perception of associate membership²⁰. It hierarchically ranks five categories of reasons to become an associate:

- participation in democratic life, with the following arguments: being part of a different bank, influencing the definition of strategic orientations of the bank, joining in the main events of the bank, sharing cooperative values;

¹⁸ At Crédit Agricole and Caisse d'Épargne, according to the principle that only customers may be associates, exclusion can be expressed when the associate do not use the bank services anymore, without specifying the duration (Caisse d'Épargne) or during more than 10 years (Crédit Agricole).

¹⁹ Our experiences of ask for articles systematically aroused a real surprise of employees and elected people, as well as some distrust. Several asks are often necessary to obtain articles that seem to be amazingly confidential. Indeed, these articles are very trite, and most local banks only reproduce type national articles, and simply include the names and area limits of the bank (Caire, 2009).

²⁰ It is unfortunately impossible to know if the answers to this study are only based on the opinions of these 10 banks, or if each of them used a representative sample of associates. It seems to us that the first possibility was what happened. E. Pfimlin himself seems to doubt a bit: « *in order to qualify what the study presented, it is not always clear that they know why they become associates, and when they are explained it is necessary to advocate the cause and show that it is important* » (EACB, 2007).

- contribution to the development of the local community: community commitment, being a member of a structure supporting local life, taking part in local economy and social activities promoted by the bank and its associates;

- access to high quality products and fair price services: favourable conditions on credit products, insurance and saving, advantages of loyalty programmes;

- opportunity to buy an attractive share: dividend stability on a long term basis, low risk profitable investments;

- others: identification to the brand, share selling bounded to financial product.

Contrary to what Caisse d'Epargne pointed out, the EACB study concludes that non-consumerist motivations (the first two reasons given above) would dominate. Because of the lack of access to qualitative bank surveys about associates – seen again as confidential – it is impossible to decide between these two very different views of associate membership, « savings membership » versus « true membership ».

IV. « Democratic equality »: voting conditions in general assemblies

The second principle (one member one vote) lies at the heart of the cooperative project. « *The associate is considered for what he is, not for what he financially represents* » (EACB, 2007). The reality of this principle can be assessed at five levels in articles about vote: the possibility of remote voting or not; the mandate system; the quorum setting; the show of hands vote and the secret vote; the rules about extraordinary general assemblies.

Table 2: Articles about vote

	Crédit Agricole TP	Caisse d'Epargne NP-HC	Crédit Mutuel Chauvigny	Banque Populaire RP
Remote vote	no	no	no	possible (form or internet)
Mandates				
- quality of the agent	associate or spouse	associate	associate	free
- ceiling (including one's own share)	5 votes	4 votes	5 votes	0,25% of voting rights
- proxy to the President	no	yes	no	yes
Quorum at ordinary general assembly	25% of associates (present and represented)	no quorum	no quorum	20% of shares (present, represented, postal voting)
- 1 st convocation				
- 2 nd convocation	no minimal period no quorum	-	-	no minimal period no quorum
Show of hands vote	- except ask from half of present people - except election of administrators	not mentioned in articles	- except ask from 25% of present people	not mentioned in articles
Extraordinary general assembly				
- quorum 1 st convocation	50%	25%	33%	25% (presents and postal votes)
- quorum 2 nd convocation	none	none	none	20% (3 rd convocation within next month: none)

- majority	2/3	2/3 (1 st convocation), 1/2 (2 nd convocation)	2/3	2/3
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Remote vote

Except for Banque Populaire (the only network without local level), the absence of possibility of postal vote on resolutions, of electronic or paper vote does not favour large participation (whereas this possibility is systematically used in listed firms²¹, even if in their case shareholders are scattered nationwide or worldwide). Obviously, we can consider that direct and participative democracy can only be presential, but in this case the place, day and time of the general assembly have to be carefully chosen in order to enable a large number of associates to attend it, and not only inactive ones.

Mandates and proxy to the President

For associates who cannot attend the assembly, it is always possible to give a proxy to another associate (or spouse attending the Board of Directors or any other person in the case of Banque Populaire) with a written proxy. In the four banks, the number of mandates per associate attending the assembly is limited. Each attending person may only have 4 or 5 votes²² at most, except at Banque Populaire where the ceiling is a % of the number of voting rights (0.25%), which according to our calculations gives a theoretical ceiling between 137 and 920 votes depending on the number of associates in the regional bank.

However, the « one associate=one vote » principle, is misconstrued at Caisse d'Épargne and Banque Populaire because the President can cumulate an infinite number of proxies (and systematically favourable ones). In this case, for each proxy the President « *votes for the adoption of the resolutions that are presented or agreed by the Board of Directors of the local bank and votes against the adoption of all other resolution projects* », according to article L. 225-106 of the commercial Code. Somehow, it is like accepting postal vote, but it means voting in favour or all the resolutions presented by the acting management only. For example, in a local Caisse d'Épargne we have seen that the President had 2013 proxies, amounting to nearly 20 times the voting weight of the assembly (Caire, 2007). There is here an amazing possibility of locking the power in a cooperative firm which claims it applies democratic procedures. Spear (2004) also notes this overwhelming tendency to give proxies to the President in the United Kingdom, when it is possible.

Quorums conditions of vote

The quorum question is standard in social economy. For ordinary assemblies, two banks (Caisse d'Épargne and Crédit Mutuel) have chosen to do without it, and the other two have put it at 25% (Crédit Agricole) and 20% including postal votes (Banque Populaire). But in reality, this quorum is virtual, as the practice, allowed by the articles that do not set a minimal period, requires to reconvene immediately at the same place with the same agenda the second general assembly²³. If we correctly understand the will to save time and the means that explain such practices, we can also deduce that democracy is but a pretence.

As for voting conditions, the articles of Crédit Agricole mention that: 1) votes on

²¹ For instance, during the general assembly of BNP-Paribas in 2009, 30% of voting shareholders (representing 77% of voting rights) chose postal vote.

²² In some local banks the maximum can reach 10 mandates.

²³ Or a first general assembly may have been convened very confidentially with a single legal announcement, before a large convocation with personal letter to all associates to the second general assembly without quorum.

resolutions are by show of hands, except if the majority of people attending the assembly ask for a secret vote by show of hands; 2) the election of administrators and auditors is always done with secret vote. Some Crédit Mutuel banks, but not all of them, also offer the possibility of secret vote if a quarter of the assembly asks for it. The articles of the other two banks fail to mention anything about this question. Our experiences in general assemblies seem to indicate that show of hand vote is largely dominant, but we do not know if it is related to a specific rule that is not integrated into the articles or related to habit. Nevertheless, we know that if show of hand vote is quick – as well as the electronic vote - it gives a feeling of responsibility and may contribute to start the discussion, as each person expresses his viewpoint. It is also intimidating and does not favour the variety of opinions. Some financially fragile people may even fear retaliation in case of dissident vote.

Modifications of articles and extraordinary general assembly

As they can modify the articles, vote the dissolution or merger or split, what Bebhuk (2004) calls fundamental decisions about the rules of the game, about the end of the game and the size of the game, the extraordinary general assemblies are regulated by rules that differ from those of ordinaries general assemblies. The quorum is theoretically reinforced. But an immediate second extraordinary general assembly is also quite frequent and thus cancels any real effect (except at Banque Populaire where without quorum at the first two general assemblies, the third one happens without quorum within the next two months). In the four banks it is also mentioned that any decision in extraordinary general assembly should be taken with a qualified majority of two thirds (except 2nd general assembly at Caisse d'Epargne where simple majority is enough). Considering this point, local democratic liberty is closely controlled because any modification of the articles has to be agreed at territorial level (above the local one): federation (Crédit Mutuel), regional bank (Crédit Agricole and Caisse d'Epargne), federal bank (Banque Populaire).

V. « Participation in decisions »: speaking at the general assembly and being a candidate

The third cooperative principle, the free participation in member management, may be assessed at four levels: ways to convene general assemblies and listing resolutions on the listing of the agenda; territorial dimension of the bank; transparency of accessible information to associates and possibilities to ask questions to managers; ways to candidate to the Board of Directors.

Convocation and agenda

According to the articles of the four banks, the Board of Directors of the local bank has to convene associates to the general assembly by « any way », by publication in a legal announcement journal, or more generally by personal letter to the associates²⁴, while respecting a minimum period of 15 days between the date of convocation and the date of the general assembly. The convocation has to mention the agenda set up by the Board of Directors. But participation may also be evaluated through the power of associates to initiate actions. At Caisse d'Epargne and Crédit Mutuel, if one quarter of the associates asks for it, the Board of Directors has to convene a general assembly²⁵. Though we know that gathering the signatures of a quarter of the associates, which represents at least one thousand persons to

²⁴ What is always possible because shares are nominative, contrary to listed firms where stocks are most of the time bearer shares.

²⁵ At Banque Populaire and Crédit Agricole, the case is not mentioned in the articles we have.

contact even for a small local bank, is highly difficult.

Concerning the agenda, one or more associates at Banque Populaire, one tenth of associates at Crédit Mutuel and one quarter at Caisse d'Epargne can request the introduction of a resolution project into the agenda in writing (the articles of Crédit Agricole local bank we have at our disposal do not mention this). Convocation letters are generally discrete about the possibility to propose a resolution.

Proximity democracy

Two of the historical basic fundamentals of cooperative banks are proximity and direct democracy which is associated to it. At Crédit Mutuel and Crédit Agricole, the number of local banks has not evolved much during the recent years²⁶, which has enabled the gathering of general assemblies at township level²⁷ and maintaining a large number of local administrators compared to the number of associates (table 3). At Caisse d'Epargne and Banque Populaire, the gathering of local banks (the number of which declined from 440 to 288 between 2005 and 2009) and of regional banks (decline from 31 to 18), lead to a reduction in the number of administrators²⁸, lower proximity of general assemblies for associates and the removal of power places.

Table 3: Local representative democracy

2008	Crédit Agricole	Caisse d'Epargne	Crédit Mutuel	Banque Populaire
Average number of associates by local bank	432	12 892	3934	194 444
Number of associates/Local administrator	188	902	300	12 324
Participation rate at general assemblies (presents)	4%*	2%	7%	1.5%*
Average number of participants at a general assembly	700*	205	270	1300*

* For Crédit Agricole the calculation is done on the basis of a local bank (urban). For Banque Populaire the calculation is made using data from a regional bank. For Caisse d'Epargne and Crédit Mutuel the calculation is done with statistics from annual reports of the banks.

The participation rate at general assemblies is close to what we usually find in academic literature. For Spear (2004) participation to elections in consumer cooperatives in the United Kingdom is sometimes below 1% and generally between 1 and 5% with the tendency of participation to decline with the size and age of the organizations. McKillop (2002) indicates that the participation to general assemblies of Credit Unions in Ireland is 2% on average. At European level the participation level in cooperative banks is estimated between 5 and 8% (EACB, 2007). And as a comparison²⁹, in 2009 there were 1664 shareholders present at the general assemblies at BNP-Paribas, 1756 at Société Générale and 1030 at Crédit Agricole.

Transparency of information and debate

²⁶ On the contrary, at Crédit Agricole SA there has been a concentration of regional banks, declining from 53 in 2001 to 39 in 2008.

²⁷ There is a little more than 4000 townships ("cantons") in France.

²⁸ However, in their website *Sociétaires*, Caisses d'Epargne says: « *The administrators of local banks, true sensors of economic and social realities of the territories, make a dynamic force essential to the success of our policy* ».

²⁹ For companies, the quorum is calculated in % of the capital (BNP-Paribas 53%, Société Générale 53%, Crédit Agricole SA 72% in 2009) and is this not comparable to the one of cooperative banks. According to our calculations we can estimate that the rate of presence among shareholders is about 7% at BNP-Paribas and 2% at Société générale.

The information given upstream from the general assembly is usually very poor, whereas it is essential for the reflexion and preparation of questions. The convocation – which usually includes the agenda, the resolutions to be voted and the announcement of a closing cocktail – often contains a single typed letter for the whole national network. The pages for associates on websites are often quite paltry³⁰ and neither allow visitors to obtain an electronic version of the preparatory documents for the general assembly, nor the minutes of the general assembly. At the door of the hall where the general assembly is to take place, it is rare for attending associates to be given a synthetic document providing the largest number of people with the clearest possible information. And downstream associates rarely receive a letter with the minutes of the general assembly.

During the general assembly, there is a real pedagogical effort – sometimes with an institutional film – to present the general financial situation and the activities of the national network as well as those of the local bank. As a matter of fact, in the three general assemblies we attended in 2009, the difficulties linked to the world financial crisis were discussed at length³¹. Differently, the presentation of financial accounts is often quickly carried out without any analysis or pedagogical effort. As for the presentation of resolutions, it usually happens in two steps: a pure legal formal presentation first, and next some brief explanation about the context and consequences in Manichaeian terms (such as « there is no other solution »). This kind of presentation does not contribute to create the conditions of a debate and seems to give all present associates a passive approving role. The general impression is rather that it is a communication strategy more than a will to educate the members³² in accordance with the 5th principle of the ACI (Alliance Coopérative Internationale, 1995) declaration. Then, some « sweet confidence relationships » are created (Spear, 2004) and based on available information (on the table at the entrance) instead of being based on understood information.

In the course of the process of the general assembly, the questions and answers period should, in principle, be the richest democratic moment, a moment when varied views are exchanged on the forum as well as in the hall. But this is not always the case. Our observations of assemblies seem to show three tendencies:

- the time given to this questions is sometimes very limited because of a long lasting forum talk the purpose of which seems to try to delay this moment. In one general assembly, that lasted 3 hours, we even heard the President justify his behaviour this way: « *We received many questions. Personal questions will be answered one by one by agency directors. General questions have been answered someway with the previous speeches, and it is late, so we will talk about prized solidarity projects* » (Caire, 2009). In other general assemblies, only written questions sent in advance by post are answered;
- in the answers to questions the speech of the regional manager dominates, the President speaks marginally and the other elected people not at all. The « competent speech » dominates the « activist speech »;
- even in the cases where there is more time for questions, the number of associates

³⁰ On the contrary on these websites solidary sponsoring and « product advice » are put forward.

³¹ As the losses of the national bank are mostly attributed to external circumstances, the strategy chosen by national managers for the last few years was, according to them, the best one.

³² Besides the general assemblies, there are other forms of meetings with associates: the « clarity meetings » of Crédit Mutuel, the « thematic meetings » of Crédit Agricole, the « privilege meetings » of Caisses d'Épargne, the « welcome meetings or nursery » of Banques Populaires... However, it is very difficult to estimate their frequency and their distribution among the various regional and local banks. Moreover, these meetings seem to come more from a marketing and loyalty logic than from an information logic.

asking questions is minimal, including when strong financial turbulences characterize the markets. The general assembly is often a « sleeping agora », which wakes up at the end of the assembly during the presentation of solidarity actions that are financed by the local bank³³. This « loss of voice » of the associates probably comes from both the perception of the complexity of the financial challenges, the lack of relevant pedagogy, and the difficulty to talk in front of everybody, or even some real lack of interest.

Applications and silent cooptation

Considering the free implication principle again, we can point out that if individual application for the administrator position is legally possible for almost any associate (see table 4), the procedure is sometimes far from being transparent. Indeed, at Caisse d'Épargne it is necessary to look at the associate page on the website (with a specific code) to be informed of the opening and closing dates of applications. The closing date is two months before the general assembly, meaning one month before the convocation is received by associates.

Table 4: Rules of articles about application for the Board of Directors

	Crédit Agricole Touraine-Poitou	Caisse d'Épargne Nord Poitou- Haute Charente	Crédit Mutuel Chauvigny	Banque Populaire Rives de Paris
Number of members	6 to 15	18	5 to 12	5 to 18
Eligibility conditions ³⁴	Incompatibilities: - spouses, parents, children and collaterals cannot be administrators simultaneously - employees at the Board of Directors (over 5 years after their leaving)	-	« <i>The Board of Directors has to be representative of the associates of the bank</i> » + Reference to the general regulation of the bank	Ownership of at least 10 shares and « <i>having an unquestioned reputation</i> »
Age limit	70	none		70
Re-eligibility	yes	yes	yes	yes
Mandate duration	3 years	6 years	3 years	5 years
Volunteering	Refunding of expenses + possibility of compensation for time (Article L512-36 of monetary code)	Refunding of expenses only	Refunding of expenses only	Attendance fees

We can also mention that in the four banks re-eligibility is infinite, except the age limit of 70 at Crédit Agricole and Banque Populaire, and that the mandate duration is particularly long at Caisse d'Épargne (6 years) and at Banque Populaire (5 years). Thus, the entrenchment of elected associates is possible.

According to our observations, it seems perfectly normal to managers that the number of (coopted) applicants is equal to the number of positions and that the mandate of voluntarily retiring administrators is systematically renewed³⁵. The number of questioned elections, i.e.,

³³ In some cases there is a vote to choose the project that will be supported. This is then the only moment where the bank gives the associates the possibility to choose between several options instead of expressing a binary opinion (acceptation/rejection).

³⁴ In the four banks, an employee or an administrator from another bank cannot apply.

³⁵ At the end of the assembly of Caisse d'Épargne, we asked the regional deputy-director about the quasi-underground of the call for application. He willingly admitted it but according to him a public call « *would have been pointless because there would have been too many applicants compared to the number of positions. Meanwhile, we already had a problem; we had to divide by two the number of administrators compared to what we had before the merger, and nobody failed* ». Moreover, according to him that would have been « *a waste of*

where the number of applicants is higher than the number of positions, is marginal³⁶. And even in such a case, the practice of « applications agreed by the Board of Directors » sharply reduces the probability for a dissident applicant to be elected.

The lack of interest in the potential that is represented in variety of individuals that can candidate is characteristic of applications and does not help administrators to be representative (in terms of age, gender and position in particular) of the socio-demographic composition of the associates³⁷. But here again, because of the lack of transparency of banks, it is unfortunately not possible to quantify this point³⁸.

VI. « Absence of profit goal »: at the local level...

The fourth cooperative principle, the absence of profit goal of the elected representatives is still globally true at the local level (see last line of table 4). The regional organization of Banque Populaire is the explanation for attendance fees, which also exist at regional level in the other three banks. The fees for the time given are frequent in agricultural organizations such as MSA, and are regulated by the law.

We can also mention that the compensation of top elected managers at the regional and national levels³⁹ is very rarely questioned in local general assemblies, whereas it is one of the most popular subjects in listed firms' assemblies. On the contrary, the volunteering of local administrators is sometimes used as a justification to « keep a seat », a kind of « notability sign ».

VII. Propositions for « democratic vitality » indicators

In 2006, in a report for the Institut Français des Administrateurs, Etienne Pflimlin, President of Crédit Mutuel since 1987, suggested 30 recommandations of good practice in cooperative and mutual banks governance. Among them, ten are specifically about associate membership:

« 1. *Communicate strongly with associates about firm governance and their role in this governance;*

time and too complicated » because the letters sending is centralized in Paris with a pre-determined size and it is impossible to modify any line (Caire, 2009).

³⁶ According to McKillop (2002), in Credit Unions in Ireland questioned elections are more numerous with the size of the organization: 33% among the largest, 18% among firms near average size, 9.7% among the smallest (for which in 28% of the cases there are less applicants than positions). Apparently this does not happen in France.

³⁷ Interestingly, the articles of Crédit Mutuel of Chauvigny mention that « *the composition of the Board of Directors has to be representative of the associates of the bank* », but do not refer to any precise criterion for its application.

³⁸ We only have partial data. Among the 284 administrators of Banque Populaire (excluding Crédit Coopératif where the administrators are corporations), 49% are firm managers, 8% craftsmen or merchants, 4% farmers or wine growers and 8% are independent. These data clearly show the influence of the origins of Banque Populaire. At Caisse d'Epargne, 79% of administrators of local banks are men whereas 54% of the associates are women.

³⁹ We have to remember that the compensations of elected managers of cooperative banks are close to those of the two « capitalist » banks: compensations (fixed + variable + fees + perks, except golden pensions or golden parachute) in 2007: President of Crédit Agricole 700 000€, President of Caisse d'Epargne 1.5 million €, President of Crédit Mutuel 850 000 €, President of Banque Populaire 800 000 €, President of Société Générale 3,3 millions €, President of BNP-Paribas 1.6 million € (Source : Financial reports of the banks). The creation of listed firms also had the advantage to enable to distribute stock-options...

2. Increase the rate of membership in cooperatives;
3. Check that there is continuous information conveyed to associates during the general assembly and all the year long (...)
5. Set, reach and communicate significant attendance goals for local general assemblies;
6. Develop regional and national debates on strategic orientations (conventions...);
7. Aim at promoting diversity of associates in Boards of administration (age, gender, social and professional categories, backgrounds etc.) (...)
11. Organize reports of the mandates for the associates (...)
15. Make the understanding of documents presented at the general assemblies easier (...)
23. Volunteering has to be maintained as much as possible. If needed, reinforce the fee transparency.
24. Inform website visitors of details about the senior managers who have been elected (election date, biography, etc.) (...)
30. On the websites, explain precisely what corporate governance is (functioning, access to membership, election calendar...) »

Using our previous observations and these recommendations, we suggest some criteria to assess democracy in cooperative banks below (last column of table 5). We partly used annual reports of the communication agency *Capitalcom* about the shareholders general assemblies of CAC40 firms, and the grid applied to give the prize of « the general assembly of the year » (Capitalcom, 2009), as well as some items about the European Directive 2007/36/CE (not yet transposed in French law), which reinforce the rights of the shareholders in listed firms. We do not ask for the adaptation of « democratic practices » appertaining to the social economy to « business practices », but we simply point out some similarities in the reflexion about governance improvement which seems interesting for our subject.

Table 5: Ways to evaluate the democratic expression

Democratic ambition	Dominant practices	Risks	Propositions of valuation criteria
(1) Free membership (change from customer to associate)	« Selling » of the share as an investment Very low information about rights and duties of the associate	Saving membership instead true membership	Number of associates/clients ratio Socio-demographic profile of membership /composition of customers Documents given when the share is bought
(2) Voting equity (« one member = one vote »)	Absence of postal vote (except Banque Populaire) Show of hand vote Concentration of powers on the President (Caisse d'Epargne, Banque Populaire)	Power at the forum	Number of proxies given to the President/number of voters ratio Possibility of postal vote Resolutions voted with secret vote /total number of resolutions ratio
(3) Free participation to management: - presence at the general assembly - exercise of democratic power	Gathering of banks Few information before, during and after the general assembly	Absenteeism	Quorum Socio-demographic profile of present associates /composition of associates Lisibility of the convenence and the report ⁴⁰ Pedagogy and transparency of

⁴⁰ Clarity, deadline for receipt, broadcasting on internet, letter to associates, ... (Capitalcom, 2009)

- application for administrator positions	Formulation of absence of options Short time duration of the debate with the hall Frequent speech of employee managers Resolutions all accepted with more than 97% of votes Procedure of hidden or managed applications	« Profanes » versus « experts » Monologue at the forum Cooptation	information ⁴¹ Existence of a talk on the associates' website Ways to add items in the agenda and resolution projects Duration of debate /Duration of the general assembly Structuration of the debate ⁴² Speech duration of the elected /Speech duration of employee managers Proportion of rejected resolutions or reluctantly accepted resolutions (at least 25% of rejection) Publicity for the call for application and deadline Number of applicants/ Number of positions Presentation duration of new applicants during the assembly ⁴³ Quality of the presentation of administrators on the website
(4) Absence of profit goal for elected representatives (defence of common interest)	Absence of discussion about managers' compensation, elected and employees, regional and local ones	Entrenchment	Time given to explanations about managers' compensations

VIII. Conclusion

« *The associatel is at the very heart of our organizations and we can say, as politicians do about voters, that, if the number of associates diminishes the whole pyramid collapses.* » This declaration by Etienne Pflimlin (EACB, 2007) shows the present concern of elected managers of French cooperative banks⁴⁴ about the « sleeping agora »-looking general assemblies, the average age of which is frequently over 70, where all resolutions are unanimously accepted and questions are seldom asked. There are certainly many reasons to explain this: lack of general activist commitment in the population, increasing heterogeneity

⁴¹ Presentation of the results, stratgy and jobs, explanations about social and environmental responsibility, information about corporate governance, risk management, financial strategy, presentation of each resolution, relevance of auditors' speech... (Capitalcom, 2009)

⁴² Could all shareholders who wanted to speak do it? Quality of the answers, given precisions, degree of concision; consideration given to shareholders; relevance of written answers; particular initiatives to favour the right to speak and pluralism... (Capitalcom, 2009)

⁴³ In anglo-saxon countries, all administrators attend the assembly at the forum and have to present collectively a valuation of the working of the Board of Directors to the assembly. New applicants give detailed resumes, or even their programmes, and also come on the forum to present themselves such as the shareholders can evaluate their availability, their skills and their independence (Capitalcom, 2008). We can also add that the general regulation of working of Crédit Mutuel mentions in its article 142: « *In order to inform the general assembly, the applicant tells about his marital status, his age, his job and if necessary his other positions.* »

⁴⁴ Our empirical study applies only to French banks. A far more important work would be necessary to generalize our results to cooperative banks from other European countries or from North America.

of associate membership, more technical and complex activities, lack of human and financial means given internally to develop membership...

We wanted to particularly insist on the maladjustment of some elements of the articles and on some practices which seem to favour the emergence of an entrenched and plebiscited governance. But this evidence « seen from the bottom » through local general assemblies, raises three fundamental political questions about associate membership democracy:

- are administrators the representatives of associates (representative administrators), or are they attending assemblies as experts to give advice and support managers (specialist administrators)? (Cornforth, 2004). Implicit cooptation, not written in the articles, can be understood if we consider skills, the sharing of values, the reinforcement of social networks. But, it also increases the risks of social reproduction and conformism, or even power retention, as the original « for us » meaning for associates progressively becomes a « for us », i.e. for managers.

- should the emergence of some opposition be accepted or even favoured? Most of the contents of the articles seem to be based on the idea that pluralism of strategic opinions in Boards of Directors creates inefficiency, and give place to a second plebiscite in case of opposition from a large majority of associates. But, it also means renouncing to a stimulating opposition, interested in the socio-economically disadvantaged associate groups viewpoints, and easing the renewing of projects and practices.

- can social economy build an alternative project to capitalist running? The elected managers of cooperative banks seem to have given up, and seem to share the idea that there is only one way. If they cannot explain why they struggle, then why debate about it? However, the financial and economic events appear to call for some questioning, for some large debates about democratization of the access to credit and saving, for « moderate » advice instead of selling new products at any price, or even for commitment in the local economic development.

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