

## **VALUES-BASED MANAGEMENT IN COOPERATIVE BANKS: BALANCING SELF-PERCEPTION WITH PUBLIC PERCEPTION?**

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### **Abstract**

The main target of cooperative banks is not to maximize profits but to jointly manage a business. With this in mind, assuming a stakeholder-oriented behavior of cooperative banks, we address whether cooperative banks consider multiple stakeholder values and take a sustainable governance approach. We conduct a content analysis of the annual reports of German cooperative banks, with reference to two research questions: Are the basic principles and values of cooperatives optimally realized and communicated to external stakeholders? Can cooperative banks comply with the requirements of the triple bottom line, namely the economic, environmental and social responsibility? We find that cooperative banks do not effectively communicate their cooperative values and thus inadequately manage to demonstrate the implementation of their core values. Yet cooperative banks avail of a sustainable business model that offers the potential of sustainable business conduct.\*\*\*\*

**Keywords:** Corporate Social Responsibility, Sustainability, Cooperative Banks, Values-Based Management

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### **Introduction**

"Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility" (United Nations, 2012). With these words, the Secretary-General of the United Nations Ban-Ki Moon explained the UN's decision to declare the year 2012 as the International Year of Cooperatives. In doing so, he dignified the economic form that counts over 800 million members in over 100 countries worldwide and that provides more than 100 million jobs (United Nations, 2011). In terms of the number of members, cooperatives are the largest economic organization with about 20 million members in Germany. Cooperatives are thus a fundamental part of the German society and economy with over 7,500 branches and 800,000 employees (Wieg, 2012).

The need for organizations to be responsible and accountable has become increasingly important in recent years. The impact of globalization and growing stakeholder activism have forced companies to become social entities that hold economic, environmental and social responsibilities

(the so-called triple bottom line) to the well-being of society. Consequently, organizations are not only expected to comply with economic and legal obligations but to meet certain responsibilities to society beyond profit-maximization and legal compliance (McGuire, 1963). Moreover, the implementation and communication of accountable and transparent corporate social responsibility (CSR) initiatives is nowadays perceived as a strategic driver of businesses rather than just an option (Baron, 2001). Research by Ringle (2010) revealed that the characteristics, principles, and values of cooperatives represent a crisis-resistant foundation, promote long-term success and therefore make cooperatives the most sustainable form of business. Since cooperatives sincerely integrate their fundamental ideas, namely the three S-principles self-help and identity, self-government and democracy, and self-responsibility into their sustainable business model, they are able to align their economic interests with social needs and demands (Wieg, 2012). From this, a positive image of cooperatives results and Germans associate the term cooperative with features, such as long-term economic thinking, proximity, regionality, and

social responsibility (Jungmeister, 2012). German Chancellor Angela Merkel even referred to cooperatives as being the business model for the future, because "cooperatives are examples of how to integrate economic, social and environmental goals" (International Co-operative Alliance, 2012).

In Germany, cooperative banks represent the largest group of cooperative companies with 17 million members and 190,000 employees. Especially in the banking industry, competitive pressure, that leads to price competition (Porter, 2008), is very high and can only be tackled with an attractive business model and the communication of a business approach that does not only consider economic (short-term gains) but also long-term social, ecological and economic longevity (Helmbrecht, 2012). One possibility to communicate a sustainable business model is the disclosure of information on financial performance, corporate conduct and corporate culture to the relevant stakeholder groups. Keller (2006) thus emphasizes the importance of the annual report as an instrument of corporate communication, which also serves the marketing of corporate shares, reputation and socially responsible initiatives. Moreover, effective reporting is assumed to improve the communication of membership benefits as well as to increase the reputation of cooperative banks as a sustainable and value-oriented business model (Wendler, 2011).

This raises the question of what constitutes the specificity of cooperatives in the 21<sup>st</sup> century. Do cooperatives' make their characteristics, principles and values transparent and are they actually suited to advance or conduct sustainable business? If so, where and how are these values with respect to economic, ecologic and social responsibility implemented in practice? The objective of this study is thus, to conduct a content analysis of annual reports of German cooperative banks (all situated in the German federal state Bavaria) in order to investigate, how cooperative banks put their traditional principles and values into practice, whether they use these principles as a basis for their corporate conduct, and whether they adequately communicate this to their external stakeholders. Finally, a possible compatibility of the cooperative values with the principles of corporate social responsibility is reasoned. Based on this research objective we try to highlight the following two research questions:

- Do cooperative banks optimally realize their basic principles and values and communicate them adequately to external stakeholders?
- Does cooperative banks' business conduct comply with the requirements of the triple bottom line, namely the economic, environmental and social responsibility?

## **1 Theoretical concepts and principles of German cooperative banks and corporate social responsibility**

### **1.1 German cooperative banks**

The foundations of the cooperative thinking and the emergence of the legal form of registered cooperative (eG) in Germany were laid by Victor Aimé Huber, Hermann Schulze-Delitzsch, Friedrich Wilhelm Raiffeisen and Wilhelm Haas. These initiators and organizers of the German cooperative movement were not only responsible for the development and spread of cooperative principles but also for the current cooperative law (Engelhardt, 1990). The activities of the cooperative pioneers ranged from promoting housing cooperatives and non-profit housing by Huber, the formation of urban and rural credit and goods cooperatives by Schulze-Delitzsch and Raiffeisen, and the organization of cooperatives in central cooperative association structures by Haas. In this context, Victor Aimé Huber, one of the first and most important cooperative theorists, coined the idea of *self-help* (Jenkins, 1990). Friedrich Wilhelm Raiffeisen advocated that the members of cooperative banks and the local environment would personally benefit from their joint effort based on moral values, such as *charity* and *social responsibility*.

In Germany, 7,842 cooperatives were registered at the end of 2011 counting around 21.2 million members. As cooperatives are owned by their members, their main target is not to maximize profits but rather to manage a joint business (Stiglbauer, 2012). There are five sectors of cooperatives in Germany. Whereas rural cooperatives are the biggest sector with 2,407 cooperatives in late 2011, industrial cooperatives amount to 2,329, housing cooperatives to 1,921, cooperative banks to 1,121, and consumer cooperatives to 30 companies. However, the sector that counts most members in Germany are cooperative banks with 17 million members, followed by housing cooperatives with 2.85 million members, rural cooperatives with 0.55 million, industrial cooperatives with 0.41 million members, and consumer cooperatives with 0.35 million members (Stappel, 2011a).

Cooperative banks play a significant role in the cooperative sector, and therefore also in the German banking sector. Of all 2,080 registered banks in Germany, there are 1,126 cooperative banks, 436 public-law banks, and 388 private credit/commercial banks. Although cooperative banks dominate other banks significantly in number, no new foundation of cooperative banks has occurred since 2001 in Germany. Despite a slight decline in the number of cooperative banks from 1,138 in 2010 to 1,126 in 2011, the

cooperative banking sector is still the major pillar of the German banking system (German Federal Bank, 2012). Looking at the total assets of all German universal banks, cooperative banks and their two central banks (see below) held a market share of 16.7% in mid-2010 and of 17.4% in mid-2011 through the expansion of their secure funding. In the retail-banking sector, cooperative banks had a market share of 24.6% in mid-2011 due to their close customer relationships. In the lending and deposit-taking market, cooperative banks achieved a market share of 29% for lending to small businesses and self-employed in 2011, which expresses the effectiveness of their regionally oriented business model. Overall, about a quarter of all investors in Germany held their deposits at cooperative banks and their two central banks in 2011 (Stappel, 2011a).

German cooperative banks offer a nationwide branch network with 13,350 branches and serve about 30 million customers (about 17 million or 56% of them are members). Even if the number of branches has fallen by 35% (from 20,735 to 13,350) since 1993, this can be explained by the increasing importance of online banking, and the therefrom-resulting structural change in the banking distribution channel (National Association of German Cooperative Banks, 2011). Since the number of online banking accounts has outreached 11.7 million in 2010, cooperative banks have specialized in the provision of electronic direct banking and now hold a market share of more than 25% of all electronic direct bank connections in Germany. Although critics argue that the quality of personal counseling has suffered due to the shift toward online banking, cooperative banks register a continuous increase in the number of members of approximately 1% to 2% per year (Stappel, 2011b).

All German cooperative banks are organized in two central institutes, the Deutsche Zentral-Genossenschaftsbank (DZ Bank) and the Westdeutsche Genossenschafts-Zentralbank (WGZ Bank). Both central banks represent clearing bank, liquidity manager and service provider for the local cooperative banking sector (National Association of German Cooperative Banks, 2011). The central organization of the cooperative banking group (National Association of German Cooperative Banks - BVR) acts like a statutory auditor to check cooperatives' accounting, auditing, management quality and management practice (Stiglbauer, 2012). Another benefit of the membership in the BVR is the BVR protection scheme, which secures the credit standing of the member institutions by averting or remediating imminent financial difficulties or insolvencies. What is more, the BVR's guarantee fund and guarantee network represents the "world's oldest privately funded deposit-guarantee scheme for banks" (Götzl and Gros, 2010, 34). Consequently, neither any

affiliated bank nor any depositor have registered insolvency or lost their deposits. Since cooperative banks' focus on value creation, regionality and members proves to be robust and reliable, the rating agency Standard & Poor's raised the credit rating of the BVR from A+ to AA- in December 2011. Hence, the BVR avails of the highest credit rating of all state-owned banks in Germany (Stappel, 2011a) and is therefore able to create trust among its members and to provide a crisis-resistant business model as well as stability within the German financial sector. This is also evident in the fact that cooperative banks have the smallest rate of insolvencies beyond all German organizations of less than 0.1 % (Wieg, 2012).

At the end of 2011, there were 296 local cooperative banks in Bavaria, which served 6.7 million customers, of whom 2.45 million (about 37%) are also members. These customers and members accessed long-term, medium-term and short-term loans worth € 71.6 billion in 2011 while depositing savings worth € 99.9 billion. The Bavarian cooperative banks offered the densest branch network with 3,066 branches in 2011 and provided jobs to 35,151 employees (Cooperative Banks of Bavaria, 2011). Although Bavarian cooperative banks are considered to take an old-fashioned approach to banking by relying too much on their conservative investment strategy, their regionally oriented business model proved stable and reliable against the backdrop of the sovereign debt crisis. Due to their characteristics of preferring a transparent, long-term-oriented and regional business model, Bavarian cooperative banks increased their number of members by 34,000 members from 2010 to 2011. In terms of the number of members, all local cooperative banks in Bavaria represent the largest economic organization in Bavaria that accumulated a balance sheet total of € 128.5 billion in 2011, equaling an average balance sheet total of € 434 million per cooperative bank. Moreover, the liable capital of all Bavarian cooperative banks amounted to € 11.6 billion in 2011. Hence, the Bavarian local cooperative banks already meet the required equity-to-assets ratio of Basel III before its mandatory introduction (Cooperative Banks of Bavaria, 2011).

### **1.2 Characteristics, principles and values of cooperative banks**

The characteristics, principles and values of cooperative banks have evolved over decades. Even though most of these principles have remained largely consistent during the last 125 years, a synthesis of tradition and change has caused them to adjust to society's demands and needs in order to foster the fundamental values of cooperatives (Ringle, 2010). In the following, we specify the

most important principles and characteristics of cooperative banks.

The principle of *member promotion* is a central principle of cooperative banks. Besides representing the guiding maxime of cooperatives, member promotion also reasons their right to exist (Ringle, 1994). According to German legislation, cooperative banks are either considered to be general economic associations (§ 22 German Civil Code) or non-commercial associations (§ 21 German Civil Code) that primarily focus on the promotion of their members. The peculiarity of cooperative banks is that the promotion of their members happens in the form of community *self-help* through economic business operations (Cooperative Act: § 1 I GenG). More precisely, cooperative banks follow the principle: "What the individual cannot achieve can be achieved by many" (Sylla, 2012, 26), and thereby establish a good negotiating position with suppliers, trade partners and financial institutions for their members. Consequently, the main target of cooperative banks is not the maximization of profits but rather the management of a joint business and the establishment of mutually beneficial relationships with their members (Stiglbauer, 2012). Besides promoting their members, cooperative banks can also get involved in reciprocal transactions with non-members (Beuthien et al., 2008a). Through business relations with non-members, cooperative banks are able to utilize spare capacities to keep the turnover constant, to improve their market position, and to stay competitive by turning satisfied customers into members. However, cooperative banks are not entitled by law to exclusively serve non-members, because their business model must always focus on the benefits of their members (Beuthien et al., 2008b). Member promotion in cooperative banks should thus primarily be achieved through the provision of banking products and services of the same quality but with better conditions than competing banks. Other possibilities of member promotion by cooperative banks take the form of dividend payments, special conditions at other companies, indirect benefits through social and regional engagement, and the provision of a platform for networking and information exchange (Grosskopf, 1990).

The cooperative structure principles, namely the three S-principles, extend the already explained *member promotion principle* of cooperatives with the *self-help and identity principle*, the *self-government and democracy principle*, and the *self-responsibility principle*. In addition, also the *principle of economic efficiency* represents a guiding principle to cooperative banks (Wieg, 2012; Beuthien et al., 2008b). The *self-help principle* emphasizes the objective of cooperative banks to achieve economic benefits for each single

member through the cooperation with all members. This principle is also called the principle of collective self-promotion and is closely related to the *identity principle* (Beuthien et al., 2008a). As members are in most cases customers of cooperative banks, they contribute to the generation of profits, and thus promote themselves and the entire cooperative bank. Hence, the *identity principle* is not only closely linked to the *self-help principle* but also to the *self-management and self-responsibility principle* (Beuthien et al., 2008b). To obtain membership, a customer has to buy a minimum of one cooperative share, which also guarantees a vote for the Members' Meeting (Cooperative Act: § 7 No.1 GenG). The *self-government principle* is based on the idea that each member takes part in the management of the cooperative bank and is involved in executive decisions of the management board and the supervisory board due to decision or veto rights. Moreover, the members' meeting represents the top executive for decisions inside cooperative banks and is responsible for the election of the members of the supervisory board. The supervisory board is finally in charge of naming the members of the management board. Since only members are assumed familiar with their conveyance needs, all executive managers must be members (Cooperative Act: § 9 II GenG). From this, the *democracy principle* within cooperative banks shall be derived. The *democracy principle* is also evident in the fact that all members have one vote independent from the amount of capital investment (Cooperative Act: § 43 III GenG). However, the cooperative principles do not only encompass certain rights but also entail control duties and the duty of personal liability in case of liquidity problems of the cooperative bank (Stiglbauer, 2012). Even though the above explained cooperative principles form the essential core of cooperative banks, these principles are not legally binding and are sometimes even mitigated by the German law. However, it becomes evident that cooperative banks' business model is based on principles and values that have gained importance within the last few decades and that have commendably already been practiced for almost 125 years in cooperative banks.

### **1.3 Current state of the art of corporate social responsibility and corporate social responsibility reporting**

In recent years, the role of business in society has changed, with companies taking on responsibilities that were formerly borne by governments and becoming providers of philanthropic services in areas like health, education, infrastructure, and community development. Due to this shift, companies increasingly conduct moral management and reflect the interdependence between business

and society by working jointly toward a stable environment and an educated workforce (Cannon, 1992). However, the concept of how companies should manage their corporate responsibility has remained "a fuzzy one with unclear boundaries and debatable legitimacy" (Lantos, 2001, 595). Moreover, no universal definition of the concept of corporate social responsibility (CSR) exists in the corporate and business realm (Dahlsrud, 2008). CSR is thus understood as a conceptual idea or harmonizing instrument that is based on corporate ethical values. Its main purpose is to link the economic interests of a company to its environmental and social context, while also considering the needs and concerns of stakeholders and the external environment. The concept of the triple bottom line emphasizes this request for sustainable business approaches and encourages companies not only to measure their performance with respect to their economic efficiency but also to take into consideration the environmental and social impacts of their business conduct (Elkington, 1997).

The demand for reliable and accountable forms of CSR has grown globally due to business scandals, the 2008 global financial crisis, the growth of multinational companies, and increases in stakeholder activism. It is hence important for companies to implement effective CSR practices and communicate them appropriately. In line with the increasing awareness of CSR, CSR reporting has equally gained momentum. By intending not only to disclose financial figures but also social and environmental impacts of business activities, CSR reporting is a voluntary initiative of organizations to offer increased transparency to their stakeholders (Global Reporting Initiative [GRI], 2011). Moreover, well-elaborated CSR reporting helps to convey the roles of companies in society, transparency and accountability while also effectively communicating CSR activities, approaches, and processes. Research by Esrock and Leichty (1998) also shows that CSR reporting can serve as a means to establish a positive public image and to gain legitimacy from stakeholders. Since Watzlawick et al. (1967, 48) proclaim that "one cannot not communicate", it is crucial for companies to realize that they always communicate either intentionally or unintentionally by everything they do or do not, report or do not report. It is therefore useful to explore the different types of stakeholder groups and their expectations about an organization in terms of CSR to determine the appropriate content of annual reports (Finch, 2005).

Since companies that demonstrate their commitment to CSR and CSR reporting are not perceived as focus only on short- and medium-term increases in profits, Anderson and Frankle (1980) reveal that they are considered more credible and trustworthy (so did also Du et al., 2010; Simmons

and Becker-Olsen, 2006) while also being better borrowers that generate higher returns. Consequently, investing in a company that reports "good" CSR may pay economic and social dividends in the long run. To fulfill the information needs of different stakeholder groups with respect to CSR, the ISO 260000 guidelines recommend companies to publish CSR related information in annual reports, separate CSR reports, annual shareholders letters, organizational codes of conduct or codes of ethics and on corporate websites (International Organization for Standardization (ISO), 2010). According to a study by KPMG, the annual report is considered the most popular instrument to disclose integrated reporting of financial, corporate governance and CSR related information (KPMG, 2012). In this context, it is crucial to consider that CSR reporting should be strategically planned and represent a long-term commitment to CSR. Once stakeholders are aware of CSR, they expect companies to keep this level of corporate involvement. The framework for effective CSR communication should therefore be a continuous interplay between corporate behavior, CSR reporting, and public perception (Schlegelmilch and Pollach, 2005). The fact that cooperative banks are inherently rather small and mostly act locally and regionally (Bolsinger, 2001) affects the extent and intensity of their general and specific CSR reporting. Cooperative banks thus tend not to disclose much CSR-related information, do not publish a separate CSR report but include the CSR information in the annual report and keep the annual report as precise as possible (Sassen, 2011).

Although transparent and accountable CSR reporting relies on certain standards, it is a voluntary business approach, which is not regulated by law in Germany. However, in the course of time, some voluntary standards were developed that serve as CSR reporting guidelines. Among these voluntary reporting standards, the UN Global Compact, the Eco-Management and Audit Scheme (EMAS), the Greenhouse Gas Protocol (GHG Protocol) as well as the Global Reporting Initiative (GRI) represent the most commonly accepted reporting standards (KPMG, 2012). Due to the consideration of the relevant stakeholders and the three dimensions of the triple bottom line, the guidelines of the GRI have become the most often applied reporting guidelines both internationally and in Germany (KPMG, 2012). Hence, we use the GRI guidelines, and in particular the economic, social and environmental performance indicators of the GRI, in this study to analyze the link between cooperative banks' principles and values and the requirements of cooperative banks to meet their corporate responsibilities.

#### **1.4 The link between the principles of cooperative banks and corporate social responsibility reporting**

Based on the statement from the Chairman of the German Cooperative and Raiffeisen Confederation Eckhard Ott: "With cooperative associations, the economic and social challenges of our times can be tackled with joint initiative" (Sylla, 2012, 28) we examine how the economic, social and environmental performance indicators of the GRI are reflected in cooperative principles and values, and how they are implemented in the business conduct of German cooperative banks.

According to the G3 Guidelines of the GRI, *economic performance indicators* measure the economic outcomes of organizations' activities and the effect of these outcomes on a broad range of stakeholders as well as on the economic environment surrounding the company at local, national and international level. These include aspects of the immediate economic performance, market presence and indirect economic impacts. In this context, financial figures are less important, because the focus lies on the nature of the effect on the stakeholders (GRI, 2006a). Cooperative banks are predominantly active in a relatively small local area, which also narrows their economic impact to a rather limited local economic environment. Due to cooperative banks' regionally oriented business model, they favor CSR in the form of corporate citizenship activities, such as donations, sponsorships and volunteering for the direct benefit of the local community. By firmly focusing on retail clients and small and medium-sized corporate customers at the local level, cooperative banks invest in regional companies and therefore contribute to the development of their local environment. A survey of the National Association of German Cooperative Banks in 2011 finds that 88.6% of all cooperative banks primarily invest in and promote their regional environment (National Association of German Cooperative Banks, 2012). This direct support for the local and regional environment is directly linked to the *principle of member promotion*. Besides the regional economic impact, cooperative banks also affect the national economic performance through tax payments. In doing so, they also contribute decisively to a sound environment and a good public infrastructure at a national level. Furthermore, cooperative banks have a direct economic impact on their members, because these also represent investors. Hence, members receive a dividend in return for their capital contribution as well as member-value in the form of special member conditions and member bonus systems. By providing the protection scheme of the National Association of German Cooperative Banks, cooperative banks establish a sustainable business model that offers stability and reliability

against the backdrop of the European sovereign debt crisis and the general weakness of the global economy. With respect to the market presence, cooperative banks positively contribute to the local environment by providing employment (GRI, 2006a), which is also ensured by the articles of association of cooperative banks and the *principle of self-government*. The provision of safe employment results in the payment of wages and pensions, which affects the purchasing power of the entire region (National Association of German Cooperative Banks, 2011).

The *social dimension* of CSR is an organization's responsibility towards society. According to the GRI, society performance indicators refer to the impacts organizations have on the communities in which they operate. By acting responsibly in the social environment, organizations cannot only strengthen the company's image in a positive way but also promote their own human capital. Aspects involved in the social environment are labor, human rights, and product responsibility (GRI, 2006b). As German cooperative banks are required to comply with the German law and the German labor law, it is ensured that they do not violate human rights nor impose unlawful working conditions. However, this refers to the public law and is not particularly stated in cooperative principles. Due to cooperative banks' sustainable business model, their protection scheme and guarantee network in case of liquidity problems (Cooperative Act: § 7 II GenG), they hold responsibilities for each member as well as for the entire society in which they operate. Cooperative banks hence apply the *self-help* and *self-responsibility principle* in practice. Moreover, cooperative banks' protection scheme and guarantee network also takes into account their product responsibility to their customers and members. The principle of self-help is also visible with respect to cooperative banks' employees that have access to continuous training programs and are therefore able to offer qualified service. Consequently, many local cooperative banks have been voted one of Germany's top 100 employers for several years (National Association of German Cooperative Banks, 2011).

The *environmental indicator set* of the GRI aims to reflect the inputs, outputs, and modes of impact an organization has on the environment. As such, the environmental indicators examine the energy, water, and material consumption while also considering the emissions, effluents, and waste aspects (GRI, 2006c). Since the cooperative principles primarily focus the people, or the members, it appears difficult to link them to the environmental responsibility. Yet the *principle of self-help* and *member promotion* can be interpreted to equally apply to the ecological environment, because the promotion of joint business operations

can only be fulfilled in intact business environments. This implies that the conservation and provision of the necessary resources is part of successful business operations. This is also stated in the Brundtland Report, which emphasizes that the world's resources should not only meet the needs of the present generation but also enable future generations to have access to resources (World Commission on Environment and Development, 1987). As cooperative banks primarily offer services, they are not directly involved in production, transport or waste management processes. However, they also have an environmental impact with respect to energy, water and other materials consumption in its operations and therefore cannot evade their environmental responsibilities (Giuseppi, 2001).

## 2 Methodology

### 2.1 Research objective and research design

Cooperative banks are obliged to publish an annual report. However, besides legal binding to disclose information on the financial performance, Keller (2006) and Wendler (2011) indicate that a good way to communicate a sustainable business model is to disclose information on financial performance, corporate conduct and corporate culture to the relevant stakeholder groups. Moreover, they encourage companies to employ annual reports as an instrument of corporate communication, which also serves the marketing of corporate shares, reputation and socially responsible initiatives. In order to investigate the communication of cooperative principles and cooperative banks' sustainable business conduct, we examine the annual reports of German cooperative banks. The first research objective of this study is to ascertain the nature and extent to which German cooperative banks communicate their cooperative principles and values to their external stakeholders. The second objective is to analyze whether cooperative banks' initiatives and communication comply with socially responsible policies and practices, more precisely with the triple bottom line of economic, environmental and social responsibility. However, the emphasis of this study is not the investigation of the actual motivation behind cooperative banks' value-oriented and socially responsible business conduct, but instead the perception of that motivation that is induced by corporate public communication, specifically by annual reports. An additional rationale for analyzing the extent and quality of cooperative banks' annual reports is that annual reports target a wide variety of stakeholders and are publicly available in printed versions or accessible online. So far, no study has analyzed cooperative banks' annual reports with the aim of

investigating whether the communication of their cooperative principles and values complies with the requirements of socially responsible reporting. As it is difficult to evaluate the communication of cooperative principles on a large-scale quantitative basis, the analysis of cooperative banks' annual reports seems to be a good proxy to measure cooperative banks' communication of cooperative principles and CSR.

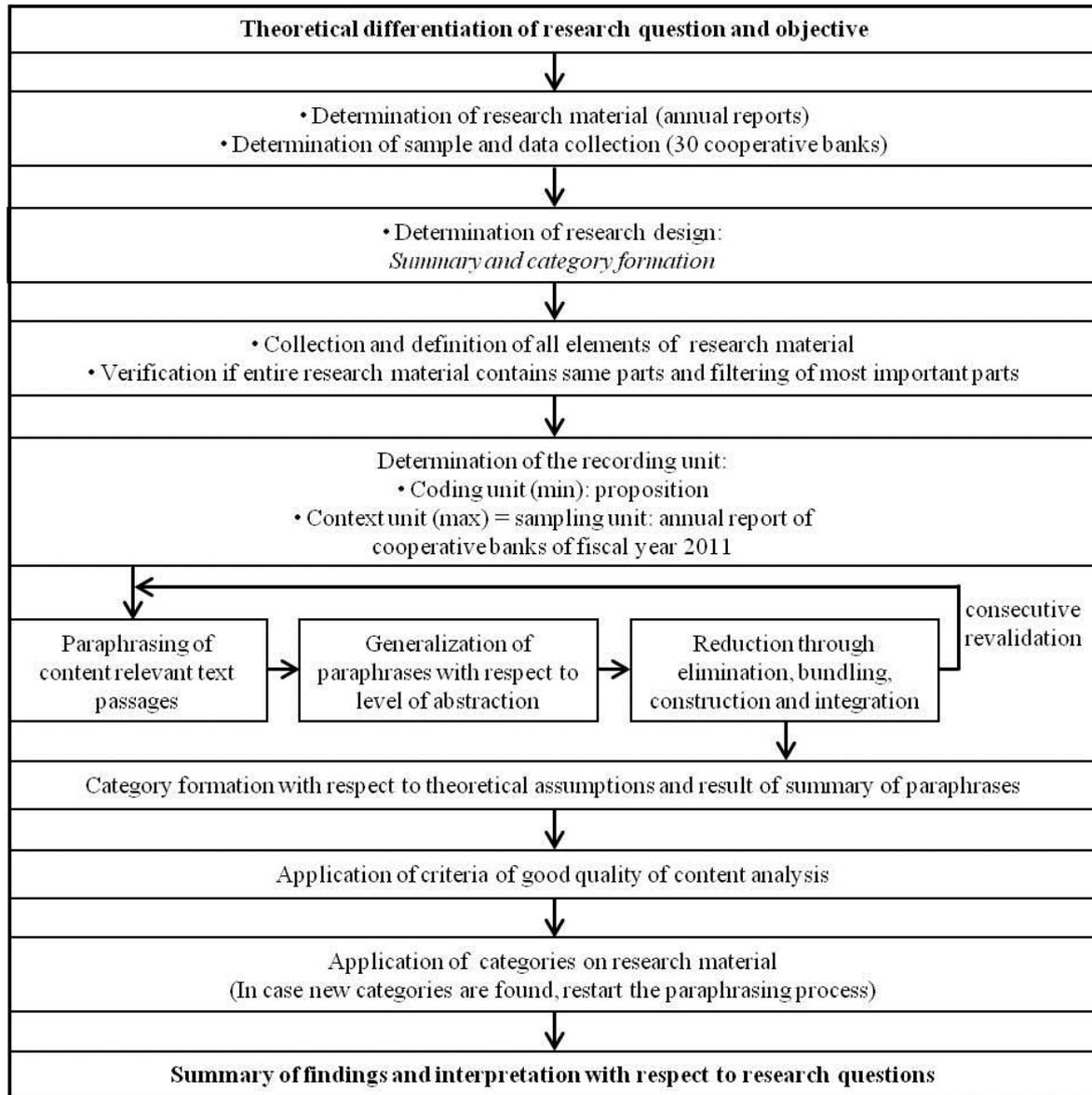
In order to investigate whether cooperative banks are able to use the potential of values-based and socially responsible communication through annual reports, we conduct a content analysis according to Mayring (2010). By systematically coding and categorizing text data into groups of words with similar meanings or connotations, this qualitative research technique scrutinizes the characteristics of language as a communication tool while also interpreting meaning based on the content of text data (Stemler, 2001). Based on theoretical content referring to cooperative principles of cooperative banks, we develop a system of categories in order to answer our main research questions (Mayring, 2010). Figure 1 depicts the course of action of the content analysis and illustrates each step of the qualitative investigation to ensure the inter-subjective verifiability of our investigation. Before proceeding with the content analysis, we define the coding, context and sampling units. The 2011 annual report is not only the context unit but also the sampling unit. The coding unit is represented by one proposition or one sentence. Moreover, in order to guarantee the validity and reliability of the research results, the two assumptions hold: 1) all annual reports are independent of each other, and 2) the research criteria developed are mutually exclusive and exhaustive (Stemler, 2001).

Content analysis according to Mayring (2010) is composed of four essential steps to develop the research criteria: (1) *paraphrasing*, (2) *generalization*, (3) *reduction*, (4) *categorization*. Firstly, *paraphrasing* deals with the restatement of the meaning of one relevant coding unit using other words. In doing so, we drop all components that are not important for the transmission of relevant content. We also omit repetitive text components and content that is not relevant with respect to the two research questions. Moreover, we do not use financial statements (balance sheet and income statements), statements by the management and schedules for paraphrasing. As a result, we get short, content-bearing word groups or grammatical short form sentences. In the next step, we *generalize* all previously detected paraphrases to a fixed level of abstraction. This generalization takes into account cooperative principles and values and leads to the formulation of key words instead of entire sentences. The goal of this step is to filter out paraphrases that have the same content. *Reduction*

is divided into two steps. Firstly, all detected paraphrases which have the same content in the generalization step should be reduced to one paraphrase. Additionally, paraphrases without bearing with respect to the research questions should be excluded. As a result, only selected statements that are central to the investigation

remain. Secondly, paraphrases that refer to the same content should be bundled to form a new statement. *Categorization* means the formation of research categories. In order to develop the research categories, the theoretical research questions, the assumptions as well as the communication medium examined are considered.

**Figure 1.** Course of action of the content analysis according to Mayring (2010)



Consequently, to analyze the communication of cooperative banks' principles, values and corporate social responsibility through a qualitative content analysis, the following four research categories were developed: (1) *member promotion* (divided in the two subcategories: a) member promotion in a narrow sense and b) member promotion in a broader sense), (2) *self-help and identity*, (3) *self-government and democracy*, and (4) *self-responsibility*. Table 1 summarizes the four categories and their associated operationalization.

In order to ensure the reliability of the empirical study, the method of inter-coder reliability was applied (Mayring, 2010). Consequently, the material was independently coded by two independent persons. As the second coder identified slightly different paraphrases and research categories, both codes were attuned to each other and combined in a final version. In doing so, we achieved a certain stability of the final coding scheme.

**Table 1.** Categories of the content analysis

Category	Operationalization
<b>1 Member promotion</b>	
<b>1.1 Member promotion in narrow sense</b>	Special conditions, banking products only for members, bonus systems, reimbursement, investment funds for members, service quality (density of branches, investment in branches and in homepage, quality management, complaint management, awards and certificates)
<b>1.2 Member promotion in broader sense</b>	Dividend payments, member value-added programs, auxiliary service
<b>2 Self-help and identity</b>	Social and regional promotion based on donations and sponsoring, non-financial promotion through activities and events, training and education of employees, promotion of local/regional companies
<b>3 Self-government and democracy</b>	Involvement in decisions, Advisory Board, task forces, committees, Members' Meeting, Supervisory Boards
<b>4 Self-responsibility</b>	Protection scheme, equity guarantee network, risk management, credit rating

## 2.2 Sample and data collection

Using this study as a preliminary study to develop the coding scheme and to make the coders familiar with material and the coding scheme our sample covers 30 German cooperative banks (all situated in the German federal state Bavaria). These cooperative banks were opted for as they unite most members and non-members in Germany and serve as a good proxy for German cooperative banks (Sassen, 2011) to conduct training for a bigger sample. Moreover, we selected these cooperative banks, since they are part of the same regional and control union, namely the Bavarian cooperative GVB, and have the same central banking authority, the DZ Bank (Stappel, 2011a).

Since the main objective of this study is to conduct a qualitative content analysis of annual reports, we reduced the sample to cooperative banks that published annual reports in the fiscal year 2011. Prior research has shown that cooperative banks that are larger in size disclose more information in their annual reports. We find that only cooperative banks with total assets of above € 220 million publish their annual reports online. This could be explained by the fact that larger companies often benefit more from increased transparency, because they must satisfy the information interests of a larger amount of stakeholders (Cormier et al., 2005). In addition, larger cooperative banks can devote more money to voluntary reporting, because they avail of more

financial resources. In contrast, most small cooperative banks do not disclose social and environmental information in their annual reports or in separate CSR reports. They might share the opinion that the financial cost of social reporting would exceed its benefits. In order to create a representative sample that considers the possible influence of the size of the cooperative bank on the social reporting, the sample is composed of random cooperative banks with a minimum of total assets of € 250 million. Annual reports are the main communication medium examined in this study. We downloaded all annual reports of the year 2011 independently from the companies' websites between June 1 and August 1, 2012. If the annual report of a cooperative bank did not exist or did not contain the relevant information for the research, we excluded the specific cooperative bank from the sample. Of the 30 randomly selected cooperative banks, only 19 published their 2011 annual reports online. With respect to the predominant importance of electronic channels for modern corporate reporting and communication (Meckel et al., 2008), we excluded those cooperative banks who didn't provide their annual report online assuming that a majority of stakeholders does not order the annual report paper based and thus isn't able to perceive a clear picture on those cooperative banks' state of sustainable business. The original sample and the final population (excluded cooperative banks highlighted in grey) are shown in Table 2.

**Table 2.** Sample

	<b>Name of the cooperative bank</b>	Total assets in thousand €	Annual report downloaded online	Total members	Total clients
1	Münchner Bank eG	2,927,106	yes	42,609	109,552
2	VR Bank Rosenheim-Chiemsee eG	2,450,287	yes	41,954	119,477
3	VB RB Bayern Mitte eG, Ingolstadt	2,040,776	yes	45,082	100,00
4	VR meine RB eG, Altötting	1,790,697	yes	n.a.	80,000
5	Genossenschaftsbank eG München	1,668,647	no	n.a.	n.a.
6	VR-Bank Rottal-Inn eG, Pfarrkirchen	1,644,735	yes	25,000	70,000
7	VR-Bank Lech-Zusam eG, Gersthofen	1,638,468	yes	35,890	n.a.
8	VB RB Würzburg eG	1,621,289	yes	35,288	90,000
9	VB RB Dachau eG	1,574,434	yes	30,557	n.a.
10	VR Bank Starnberg-Herrsching-Landsberg eG	1,563,059	yes	16,362	64,000
11	R-VB Donauwörth eG	1,341,719	no	n.a.	n.a.
12	Augusta-Bank eG Raiffeisen-VB, Augsburg	1,299,354	yes	35,000	117,000
13	VR Bank Erlangen-Hochstadt-Herzogenaurach	1,070,134	yes	32,000	n.a.
14	RB Aschaffenburg	1,050,311	yes	21,234	65,000
15	VR Bank Neu-Ulm/ Weißenhorn eG	839,475	yes	17,580	n.a.
16	VR-Bank Schweinfurt eG	791,784	no	n.a.	n.a.
17	VR-Bank Uffenheim-Neustadt eG R-VB	779,513	no	n.a.	n.a.
18	Genossenschaftsbank Unterallgäu eG, Mindelheim	776,073	yes	19,347	n.a.
19	VR-Bank Taufkirchen-Dorfen eG	654,533	no	n.a.	n.a.
20	VR-Bank Kitzingen eG	654,434	yes	17,121	n.a.
21	VB Günzburg eG	460,641	no	n.a.	n.a.
22	RB Bad Gögging eG	410,401	no	n.a.	n.a.
23	R-VB Kronach-Ludwigstadt eG	374,690	no	n.a.	n.a.
24	RB Hemau-Kallmünz eG	372,615	no	n.a.	n.a.
25	RB Bobingen eG	325,562	no	n.a.	n.a.
26	R-VB Fürth eG	322,681	yes	n.a.	n.a.
27	RB Heilsbronn-Windsbach eG	277,044	yes	9,896	n.a.
28	RB Waldaschaff-Heigenbrücken eG	276,255	yes	6,059	n.a.
29	VR-Bank Gerolzhofen eG	269,571	yes	6,094	n.a.
30	RB Geisenhausen eG	257,309	no	n.a.	n.a.

### 3 Empirical findings

#### 3.1 The communication of cooperative banks' principles, values and corporate social responsibility

Since each of the 19 sample cooperative banks puts different emphasis on different components of the annual reports, the first part of the investigation examined whether the annual reports contained the following nine components of annual reports: (1) balance and income statement, (2) annex, (3) progress report, (4) chairman's report, (5) supervisory board's report, (6) additional information relating to corporate development, (7) information on social initiatives, (8) additional components, and (9) auditor's report. As illustrated in Table 3, 94.7% of the sample cooperative banks include a balance and income statement in their annual report. This shows a strong emphasis on the economic responsibility. Moreover, 89.5% of the analyzed annual reports contained a Chairman's

report and 68.4% a Supervisory board's report which demonstrates the intention of the management level to communicate to their stakeholders. However, we could not find a well-defined part dedicated to member promotion or a member report. Consequently, the central principle of cooperatives, namely the member promotion, does not receive much attention in the corporate communication in the annual reports. From this, one could already partially deny the first research question, because cooperative banks do not optimally realize and communicate the fundamental principle of member promotion to external stakeholder. Yet 78.9% of the examined annual reports contain information on social initiatives and refer to their "corporate values", "social commitment", "social and current account", "funding focus 2011", and "added value for members". We paid the least attention in annual reports to the progress report with only 10.5% disclosing this component and 5.2% including an annex in their annual reports.

**Table 3.** Components of the annual reports of the sample cooperative banks

Component of annual report	Frequency	Percentage
<b>Balance and income statement</b> <b>(Balance and income statement short version)</b>	18 (13)	94.7% (68.4%)
<b>Annex</b>	1	5.3%
<b>Progress report</b>	2	10.5%
<b>Chairman's report</b>	17	89.5%
<b>Supervisory Board's report</b>	13	68.4%
<b>Additional information relating to corporate development</b>	12	63.2%
<b>Information on social initiatives</b>	15	78.9%
<b>Additional components</b>	17	89.5%
<b>Auditor's report</b>	11	57.9%

In the following, we present the findings of the content analysis of the annual reports of the 19 cooperative banks according to the four research categories: (1) *member promotion*, (2) *self-help and identity*, (3) *self-government and democracy*, and (4) *self-responsibility*. Since the reporting with respect to the four categories is incomplete, we can either assume that cooperative banks do not practice such principles and values or do not report on them. Reasons for incomplete reporting can include a miscalculation of their importance, lack of space, or both.

### 3.2 Member promotion

Member promotion in a *narrow sense* refers to the service exchange between the cooperative bank and its members with respect to special conditions, specific banking products for members, etc. Although member promotion is a central principle of cooperative banks, only 15.8% of the examined cooperative banks directly communicated their special member conditions or banking products for members in the annual report. The bonus system was mentioned by 10.5%, investment funds for members by 5.3%, and no cooperative bank disclosed information on reimbursement options. Although bonus systems are proven as an effective tool to retain members, most cooperative banks have not implemented such bonus systems due to a relatively complex implementation process and high associated costs (Beuthien et al., 2008b). In contrast to the rather reserved disclosure of special conditions to members, 100% of the examined cooperative banks have published information with respect to their service quality. These indirect indicators of service quality include the branch density, investments in office buildings and homepage, quality management, complaint management as well as awards and certificates. The average branch density of the sample cooperative banks was 29 branch offices per cooperative bank. Another aspect mentioned in most annual reports with respect to the improvement of service quality was the increasing online presence of cooperative

banks. Information with regard to awards and certificates won for service quality was disclosed in about 25% of the examined annual reports. Overall, it becomes evident that cooperative banks put a strong emphasis on the communication of their service quality and hardly take into consideration the importance of the member promotion. As service quality is also something from which clients and therefore non-members benefit, service quality is not a representative indicator for member promotion in a narrow sense. Moreover, by looking only at the other aspects of this category, the focus on members and the coverage of member specific information is very low.

The most important indicator for member promotion in a *broader sense* is dividend payments. 63.2% of the examined cooperative banks reported on their dividend payments, and the average dividend of the studied cooperative banks amounted to 4.53%. Although the average dividend was below the national average of 5.5% of all German cooperative banks in 2011, it was still significantly higher than the base rate of 1% of the same year (National Association of German Cooperative Banks, 2011). As two thirds of the sample cooperative banks effectively reported on the dividend payments and on auxiliary services, they communicated specific member advantages in a broader sense. However, only 5.3% disclosed information on member value-added programs.

### 3.3 Self-help and identity

Self-help and identity is the category most frequently and most intensively mentioned in the examined annual reports. This category refers to the communication on social and regional involvement in the form of donations and sponsorships, as well as moral support for the region, clients and members through the realization of social activities and events. About 89.5% of the sample cooperative banks reported on their social and regional promotion, and some of them even stated the exact amount of each donation. From the cooperative banks that specifically quantified their amount of

monetary donations, an average of € 270,000 per cooperative bank resulted. In addition to monetary donations, 57.9% of the examined cooperative banks disclosed information on non-financial promotion in the form of social auctions, donations of promotion goods, and social volunteering projects. 42.1% of the cooperative banks communicated their special focus on the promotion of local and regional companies through specific loans to local companies, the granting of development loans or regional procurement. Overall, the sample cooperative banks are found to communicate their commitment to the development of the region, create jobs in the region and promote the purchasing power of the domestic economy.

31.6% of the cooperative banks even referred to the overall tax benefit of the German society due to their business tax payments and called these payments "significant contributions to the region". Moreover, 10.5% of the examined cooperative banks published a "social and current account" or a so-called "regional power balance sheet". With respect to the training and education of employees, 78.9% of the examined cooperative banks disclosed information on their training and development programs. However, only one cooperative bank precisely quantified its training budget and the total number of training days. Although most emphasis was put on social reporting, also 15.8% of the sample cooperative banks reported on their environmental responsibilities in their annual reports. Overall, the principles of self-help and identity are the principles most often found in all sample annual reports. As such, only one cooperative bank of the sample did not disclose information on social and regional promotion.

### **3.4 Self-government and democracy**

The offering of member participation in the management of cooperative banks and in corporate decisions was encouraged by 78.9% of the sample cooperative banks through phrases like: "You have the chance to take part in your banks' decision-making, to shape your bank and to become a real

part of your bank" (Münchner eG, 2011). Consequently, direct member participation in decision-making is communicated and encouraged with respect to the distribution of profits, the election of supervisory and management board members, amendments to the statutes, and discharge of the supervisory and management board. Whereas the election and tasks of the supervisory board was mentioned in 73.7% of the annual reports, 42.1% referred to the members' meeting and 10.5% to the existence of councils, committees or project team. The average number of supervisory board members of the examined cooperative banks is nine, and 63.1% of the annual reports contained a report of the supervisory board with respect to the fulfillment of their duties. In summary, the category of self-government and democracy was the second most often mentioned research category in the examined annual reports. Whereas more than two thirds of the sample annual reports disclosed information on the participation of members in decision-making and the existence of a supervisory board, the coverage of information on the members' meeting and the existence of councils, committees or project teams was much lower.

### **3.5 Self-responsibility**

An essential feature of cooperative banks' strength is the equity guarantee network and the protection scheme of the National Association of German Cooperative Banks. As both imply the principle of self-responsibility, the equity guarantee network was communicated in 78.9% of the annual reports and the protection scheme in 52.6%. Furthermore, 47.4% of the sample cooperative banks reported on their risk management and risk prevention programs. Since the rating agency Standard & Poor's updated the rating of the entire cooperative financial group BVG from AA- to A+, 15.8% of the sample cooperative banks informed their stakeholders about this upgrade. Table 4 summarizes the above-mentioned findings of the content analysis.

**Table 4.** Findings of the content analysis

<b>Category</b>			
<b>1 Member promotion</b>			
<b>1.1 Member promotion in narrow sense</b>	Frequency	Percentage	Mean
<b>Special conditions</b>	3	15.8	24.57
<b>Bonus systems</b>	2	10.5	
<b>Reimbursement</b>	0	0	
<b>Investment funds for members</b>	1	5.3	
<b>Banking products for members</b>	3	15.8	
<b>Service quality</b>	19	100	
<b>1.2 Member promotion in broader sense</b>	Frequency	Percentage	Mean
<b>Dividends</b>	12	63.2	45.63
<b>Member value-added programs</b>	1	5.3	

<b>Auxiliary service</b>	13	68.4	
<b>2 Self-help and identity</b>	Frequency	Percentage	Mean
<b>Social and regional promotion</b>	17	89.5	67.10
<b>Non-financial promotion</b>	11	57.9	
<b>Training and education of employees</b>	15	78.9	
<b>Promotion of local/regional companies</b>	8	42.1	
<b>3 Self-government and democracy</b>	Frequency	Percentage	Mean
<b>Member involvement in decisions</b>	15	78.9	51.30
<b>Advisory Board/Task forces</b>	2	10.5	
<b>Supervisory Board</b>	14	73.7	
<b>Members' Meeting</b>	8	42.1	
<b>4 Self-responsibility</b>	Frequency	Percentage	Mean
<b>Protection scheme</b>	10	52.6	48.68
<b>Equity guarantee network</b>	15	78.9	
<b>Risk management</b>	9	47.4	
<b>Credit rating</b>	3	15.8	

Besides the presentation of the findings for the four research categories, the following exemplifies more examples in which the examined cooperative banks disclosed information on their cooperative principles and values. As an illustration, two thirds of the analyzed annual reports contained a specific section with respect to cooperative values, the cooperative business model and the history of cooperatives. In these sections, the cooperative banks explained the business model of cooperative banks and outlined their value-oriented structures. In order to communicate their cooperative principles and values, the cooperative banks applied different communication channels, such as the preface, interviews with the management and supervisory board or interviews with loyal or well-known members. Especially by connecting the current business conduct to the history of cooperative banks, cooperative principles and values were emphasized and their reliability was praised nowadays and in the year to come.

In conclusion, with respect to the *first research question*, the above-mentioned findings indicate that the communication of cooperative banks' principles and values in the annual reports is shortly not pronounced enough. Although the principle of self-help and identity is most frequently emphasized with a mean of 67.1%, it is recommendable for cooperative banks to increase their overall communication of cooperative principles and values. The mean of the self-government and democracy principle accounted for 51.3%, the mean of the self-responsibility principle for 48.68%, the mean of the member promotion in a broader sense for 45.63% and in a narrow sense for 24.57%. As these means show that only about half of the examined cooperative banks have realized the potential of the communication of their cooperative principles, it is advisable for cooperative banks to foster the communication of their cooperative principles by linking them to the triple bottom line of CSR reporting while also enhancing their CSR efforts. Especially, the

communication of the principle of member promotion should receive more attention in future annual reports of cooperative banks.

As far as the *second research question* is concerned, it becomes evident that the examined cooperative banks hold strong economic responsibility towards their members, customers and society. Through corporate volunteering, trust management, tax payments, and the creation of regional purchasing power through employment opportunities and wage payments, cooperative banks comply with the economic responsibility demanded by their stakeholders. With respect to the environmental responsibility, cooperative banks mainly concentrate on the reduction of waste and pollution and on the preservation of resources for current and future generations. Furthermore, cooperative banks strongly identify with their social responsibility by respecting human rights, preventing anti-competitive behavior, providing sustainable capital, securing deposit products, and continuously promoting and training employees.

While CSR reporting is widely used in large and international companies, cooperative banks tend to report less or not to report according to CSR standards due to their structure and smaller size. As no examined annual report applied the CSR guidelines, the analysis of the annual reports could not contribute much more useful results to answer the second research question. However, the sample cooperative banks clearly fulfill their economic, environmental and social responsibilities, and most sample cooperative banks disclose information on their environmental or social commitment. A few of the examined cooperative banks even published social accounts. Since cooperative banks have a unique and sustainable business model, their specific value-oriented principles provide a good basis to comply with the requirements of the triple bottom line. It can thus be concluded that cooperative banks comply with the requirements of the economic, environmental and social

responsibility although they hardly communicate their initiatives.

#### **4 Discussion and managerial implications**

The examined cooperative banks showed differences in the communication and implementation of their cooperative principles and values. The only information that was communicated by all cooperative banks was their branch density, which indirectly indicated their service quality. Besides communicating their service quality, the examined cooperative banks also put great emphasis on their social and regional responsibility. The results indicate that there is a relationship between the intensity of reporting and the size of the cooperative banks. Consequently, the bigger the cooperative bank, the more categories and aspects of the content analysis were addressed. In accordance with the analysis by Sassen (2011), cooperative banks increasingly include cooperative principles in their annual reporting. Since some aspects, however, are only slightly considered by the examined cooperative banks, the following proposes some managerial implications for cooperative banks.

##### **4.1 Focus on member promotion**

The member promotion is a central principle of cooperative banks and therefore represents an essential indicator for effective business conduct. However, the results of the content analysis reveal that the examined cooperative banks only put a slight emphasis on member promotion. By not clearly distinguishing between members and customers in their communications to external stakeholders, cooperative banks do neither encourage their customers to become members nor offer special conditions to their members, except for the dividend payments. Consequently, member promotion is not sufficiently implemented in cooperative banks' communications and corporate strategy. Yet cooperative banks only effectively generate surpluses if they have a sufficiently large number of members. Since cooperative banks highly depend on their members, they should increasingly realize the importance and potential of member promotion. Only if cooperative banks turn their customers into members, they achieve effective customer retention and comply with the cooperative principles and values (Hammerschmidt, 2000). By offering special conditions to members, cooperative banks do not only create incentives to become a member, but also improve their trade balance by fostering more banking operations with members.

An example of an initiative that leads to increased member loyalty is the member bonus

program. This member bonus program gives incentives to members to become involved in more banking transactions with the cooperative bank while also establishing more member loyalty. At the same time, the member bonus program enables cooperative banks to better control the demand of banking products, and the customers have an incentive to become members (Beuthien et al., 2008b). A possible reason for the low implementation of the member bonus program is the high administrative and time-intensive investment into its implementation. Other initiatives that focus on member promotion are among others: banking products only for members, reimbursement for members, investment funds for members, etc.

##### **4.2 Additional recommendations for the effective communication of cooperative banks' principles, values and corporate social responsibility**

Although the results of the content analysis indicate that there is a link between cooperative principles and the principles of corporate responsibility and that cooperative banks already take responsibility toward their stakeholders, the following proposes further approaches to effectively communicate cooperative banks' principles, values and corporate social responsibility. One example is the supply of banking products based on sustainability criteria, such as sustainability funds in the form of "ethical funds", "environmental technology funds" or "eco-efficiency funds" (Schaltegger and Figge, 2001). Moreover, cooperative banks should not only consider economic and environmental aspects in their supply of banking products but also those that specifically concentrate on the promotion of the region in which they operate and the specific needs of their local members and clients. Such a product with regional social focus fosters the member promotion in a narrow sense while also stimulating the exchange of services between members and cooperative banks. Likewise, such a regional social banking product also takes into account the principle of self-responsibility by taking on responsibility on the region through emotional perceptibility. Another possibility to incorporate social and environmental responsibility into cooperative banks' business conduct is the inclusion of environmental and social criteria in their lending policy. However, this approach could possibly contradict the principle of free membership and the obligation to lend money to any member. In this context, it is equally important to consider that it is not enough to offer banking products that comply with the triple bottom line but also to implement the principles of social and environmental responsibility in the entire business conduct.

In line with a responsible business strategy and the supply of responsible banking products, it is recommendable for cooperative banks to regularly report on their cooperative principles and to apply standardized CSR reporting (Schaltegger and Figge, 2001). Besides implementing CSR reporting standards in their annual reports, large cooperative banks should also consider disclosing a separate CSR report. As an illustration, the GRI guidelines do not only consider economic performance indicators, but also take into account the self-help and identity principle, the self-government and democracy principle, and the self-responsibility principle by reporting on social performance indicators. However, it is advisable for cooperative banks to add specific indicators with respect to their cooperative principles in order to complement the existing GRI guidelines for their application in cooperative banks.

#### **4.3 Limitations of the empirical study**

In conclusion, our study reveals that there is a link between cooperative banks' principles and values and CSR, which is marginally communicated in their annual reports. Yet cooperative banks should be more proactive and realize the potential of CSR communication to increase their communication on their principles, values and CSR initiatives. The study does however have some limitations. First, the content analysis is based only on annual reports and does neither examine other CSR communication media nor the actual implementation of cooperative principles in the business conduct. Secondly, our conclusions and managerial implications are drawn from a sample of 19 Bavarian cooperative banks and are therefore limited to a specific geographic region. However, a similar empirical study by Sassen (2011) has found similar results with respect to cooperative banks' principles and values. It can therefore be assumed that the same empirical study conducted in other geographic regions of Germany would also lead to similar results. In order to cross-validate the findings of the content analysis, it would be worthwhile to examine cooperative banks' websites, member/customer magazines and to interview the managers of the studied cooperative banks about their consciousness of the implementation of their business principles and values as well as about the emphasis put on CSR in their business practice. It would also be useful to interview stakeholders about their awareness and perceptions of the CSR initiatives of the examined cooperative banks. Future studies could test whether cooperative banks in Europe or worldwide hold similar corporate principles, and how they are realized and communicated to their external stakeholders. In this context, it is also of scientific interest whether European or international

cooperative banks comply with the requirements of the triple bottom line. Three central research questions should be addressed in future research: (1) What is the relationship between CSR communication and cooperative banks' principles and values? (2) To what extent is CSR communication able to realize and communicate the basic principles and values of cooperative banks? (3) How do national institutional frameworks affect cooperative banks' principles and commitment to CSR and CSR communication?

#### **5 Conclusion**

The first objective of this study was to investigate whether cooperative banks optimally realize and communicate their cooperative's principles and values to external stakeholders. Moreover, the second research objective analyzed the compatibility of the basic cooperative values with the demands on cooperative banks with respect to the triple bottom line, namely the economic, environmental and social responsibility. In the aim of answering the research questions, the methodological approach consisted of the investigation of the most influential theories with respect to cooperative banks' principles as well as of a content analysis of the annual reports of 19 cooperative banks based on deductively and inductively created categories. The content analysis revealed that cooperative banks take a rather reserved approach with respect to the communication of their cooperative principles and values as well as CSR initiatives. The findings further indicate that most cooperative banks do not put much emphasis on the communication and implementation of their cooperative principles and CSR initiatives in practice. Although the member promotion is the cooperative principle least often mentioned, the principles of self-help and identity, self-government and democracy and self-responsibility are more frequently addressed and are often linked to the social responsibility of cooperative banks. Furthermore, our study reveals that there is a link between cooperative banks' principles, values and CSR, which is communicated in their annual reports. Consequently, cooperative banks should be more proactive and realize the potential of CSR communication to increase their communication on their principles and values and their CSR initiatives. Moreover, cooperative banks should put more emphasis on the implementation of the economic, environmental and social responsibility in their business conduct. In conclusion, it can be said that cooperative banks are a part of an economic system whose traditional principles and values form a strong framework for effective, sustainable and responsible business conduct now and in the years to come.

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