Abstract: Membership is one of the core elements of co-operative governance and it is often interpreted as a success factor for co-operative banks. Therefore, a strategic alignment related to membership can support co-operatives to create values for their members, the so-called MemberValue. An adequate MemberValue-strategy may help financial co-operatives to achieve microeconomic competitiveness and to ensure economic sustainability with its positive social effects. Thus, the conditions, contents and consequences of that kind of strategy have to be validated by theoretical research and practical application. Based on a contemporary and theoretically linkable interpretation of the co-operative supportive principles, the MemberValue has to be developed for each co-operative bank, respectively, on a theoretical basis – the economic collaborative research. This paper discusses a corresponding approach.

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1 Introduction

The German banking sector is more affected by economic dynamics and evolving changes of market circumstances than any other economic sector (Riecke et al. (2010), p. 32; Drost et al. (2010), p. 32). As main reasons the intensity of competition, the legal and regulative changes and increasing relevance of information and communication technologies are mentioned. Additionally, the effects of the worldwide financial market and economy crisis and their accomplishment represent a challenging task for banking institutions, especially for co-operative banks (Fröhlich (2009), p. 36).

According to the current economic situation, co-operative banks are an important player of the banking sector and have a significant economic importance in Europe, especially in Germany (Bigalke (2009)). During the financial market and economic crisis and as a consequence of their sustainable alignment and economic resilience, the organisational form of co-operative banks has proven economic viability (Handelsblatt (2010), p. 49; Ernst & Young (2009), p. 22; Häring (2009), p. 36). It turned out that it is superior to the organisational form of other banks, regarding to stability and sustainability. Consequently, the success factors of the co-operative business model can often be deduced from membership as an important key element of the corporate governance. Thus, financial co-operatives are able to transmit values, which are increasingly important for transactions between members and their bank: sustainability, participation, stability, trust and control (Tschöpel (2011), p. 1). Due to economic success and institutional specialties, financial co-operatives are also increasingly important for economic research. Thus, the economic research has to evaluate the origins and consequences of those practical developments.

The momentum of the financial market situation could be used for strengthening the strategic focus of co-operative banks and to ensure their long-term success. The development cannot disguise the fact that – before the financial

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1 In several European countries, co-operative banks achieved market shares between 15 percent (Germany) and more than 30 percent (Austria, Finland, Netherlands, France), see EACB (2010), p. 26f.
market crisis started – co-operative banks increasingly adapted their strategic focus to the alignment of commercial banks. This led to a suppression of co-operative principles and to a dilution of specific elements of the co-operative governance (Weinkauf (2008), p. V). Accordingly, financial co-operatives have to deal with the task to validate and possibly adjust their current business strategies in relation to the success factors of co-operatives and circumstances of the banking sector.

For this reason, this paper should critically analyse the circumstances and the possibilities to develop a promising strategy for financial co-operatives on a theoretical basis and regarding to their membership-orientation. Furthermore, such a kind of strategy has to be arranged by conditions, contents, consequences and their specific implementation.

The following article initiates the analysis with the presentation of the strategic scope of financial co-operatives (chapter 2). The possible strategic alignments for co-operative banks will be presented and validated in relation to their governance structure. On this basis and as a specific strategic alignment, the MemberValue-strategy will be shown as well as its conception and operationalisation (chapter 3). The paper closes with a summary of implications for practical application and theoretical research (chapter 4).

2 Strategic scope of financial co-operatives

The strategic alignment of co-operative banks has to be developed in consideration of the complexity of the business environment and the statutory specifications of the co-operative governance. The complexities as well as the legal and regulatory guidelines sharply limit the scope of strategic possibilities. It can be assumed that co-operatives only achieve microeconomical competitiveness, if their orientation represents the competitive advantages of the business model and the dynamics of market circumstances.²

² In this paper, the elements of the complexity of the banking sector and their impact on the strategic positioning of co-operative banks will not be presented, see in this case TSCHOPEL (2011).
2.1 The corporate governance of co-operative banks

All formal regulations concerning the structure and interdependencies between co-operative bodies are named as corporate governance and define the precise arrangement of decision-making processes, enforcement of interests and the allocation of property rights (Theurl (2003), p. 275; Theurl/Böttiger (2007), p. 6). The main purpose of the co-operative corporate governance is to provide an actual and statutory framework, within collaborative cooperation between members is possible (EACB (2006), p. 3; Eim (2007), p. 123f.).

While focussing on co-operative research, there are several governance elements obtaining special interest. One of those elements is membership or the membership orientation while referring to a strategic management perspective. The corporate governance of co-operative banks constitutes an important position of their members as multiple stakeholders. They are service partners (customers) as well as owners and participants in decision-making processes (Theurl (2005a), p. 137). In particular, the ownership is characterised by co-determination and participation rights (Henschel/Thümmel (2005), p. 125).

Because of their co-determination rights, members are able to influence the management of co-operative banks with regard to their own interests. They are supported by the supervisory board and auditing association of their co-operative bank (EACB (2006), p. 5f.). Additionally, the “one man – one vote” principle and the restriction of obtainable shares allows an optimal protection against dominant impact on the business policies by a minority of members (EACB (2006), p. 3). The legitimacy of the co-operative institutions, especially the board of directors and the supervisory board, relies on the fact, that they are elected by the members or delegates of the general assembly. This may possibly strengthen their responsibility to their members. Additionally, control- or co-determination rights lead to the fact that the management of co-operative banks is influenced and disciplined by the interests of their members (EACB (2006), p. 6).
Because of their participation rights, members are able to assign the management of financial co-operatives to provide desired goods, which directly creates benefits for members. Therefore, the management has to ensure, that their business policy is aligned to the interests of their members (Theurl (2005b), p. 25; EACB (2006), p. 3). Thus, membership as a consistent component of the co-operative governance structure leads to compatible incentives between individual members and the co-operative organisation. This can help to solidify long-term relationships in a more complex and dynamic economic environment (Theurl/Böttiger (2007), p. 8) and finally, the interests of members can possibly converge with the business policy of the co-operative management in a long term (EACB (2006), p. 4).

As core instrument for co-determination and participation possibilities, the general assembly is the legal co-operative institution to assert control by members. This manifests itself by the compulsory consideration of members’ interests, especially in relation to decisions concerning the existence, stability and economic basis of co-operative banks (Lang/Weidmüller (2006), p. 530). Additionally co-operative banks have a board of directors and – in a two-tier system – a supervisory board (EACB (2006), p. 5f.). Their competencies are determined by formal regulations, specifically the co-operative law and the relevant statutory regulations (EACB (2006), p. 3; Theurl/Böttiger (2007), p. 5f.). Because of that fact, co-operatives are a clearly configured form of cooperation with a high level of institutionalisation (Theurl/Böttiger (2007), p. 5).

There are also deficits within this context. Because of the complexity of markets with wide requirements for the management of financial co-operatives, it has also become more difficult for members to validate the actions and measures of their management. This may be a result of the limited economic knowledge of members and high information costs (Peemöller (2005), S. 39f). Therefore, the existence of information asymmetries within the strategic orientation has to be settled by more transparent and adequate information channels (Tschöpel (2010a), p. 10f.).
2.2 Generic competitive strategies

Based on the explanations of the corporate governance of financial co-operatives, alternative strategic options for co-operative banks will be consecutively presented. This should be based on a theoretical fundament related to PORTER (1980). He explicitly verbalised the hypothesis, that a promising strategy necessarily requires competitive advantages within the company's sector (Porter (1985), p. 11). For this reason, the generic competitive strategies will be presented in the following.

To establish a successful alignment, companies adopt various strategic orientations representing the respective specialities of their sectors and the companies themselves (Porter (1980), p. 34). Despite the diversity of strategic alignments, there are differentiable generic competitive strategies may help to achieve or ensure competitive advantages (Porter (1980), p. 34). PORTER named those strategies cost leadership strategies, differentiation strategies and focus strategies (Porter (1980), p. 35).

The cost leadership strategy sets up an alignment, with a company relatively becoming the low cost producer of a sector. Such a cost advantage defines a competitive advantage and may help to ensure long-term economic viability because of above-average earnings as a result of the company’s superior cost position. The costs advantages can be transferred to customers as lower prices or remain in the company as above-average earnings (Kring (2005), p. 97). Possible sources for cost advantages are economies of scale or proprietary technologies of the company (Porter (1980), p. 35ff.).

In a differentiation strategy companies create unique attributes within their sector. The differentiation attributes have to be widely valued by customers and have to support a long-term fulfilment of customers’ needs. This legitimates a bonus on selling prices. The attributes can be sectorial or company-specific. Such unique attributes are probably aspects of quality, products, brand names or technologies. Companies have to necessarily identify one or multidimensional unique attributes and enforce them within their individual differentiation strategy (Porter (1980), p. 37f.; Porter (1985), p. 14f.).
The focus strategy deals with the specialisation of companies value creation in relation to specific customers, products, services or geographically definable markets. The strategy is based on the assumption that a limited strategic object can be achieved more effectively as a strategic object without regarding limitation. When focusing on limited strategic objects, companies can achieve cost advantages as well as differentiation advantages within this limited scope. The measures for such strategy have to be derivate from cost leadership and differentiation strategies and have to be modified in relation to the specific objects of each company individually (Porter (1980), p. 38f.; Porter (1985), p. 15f.).

2.3 Validation of strategic alignments

Based on the theoretical explanations of Porter’s generic strategy approach, the differentiable alignments will be validated for co-operative banks with regard to the complexity of the banking sector and the elements of the co-operative governance shown above (see chapter 2.1).

The cost leadership strategy needs to be regarded as critical in case of co-operative banks. Financial co-operatives have to deal with an intensifying price competition caused by competitors like specialised, direct or commercial banks (Betsch/Thomas (2008), p. 15ff.). This is also a result of the increasing transparency and comparableness of conditions between banking institutions. Because of the price competition co-operative banks have to examine their cost structures concerning possible potentials for optimisation. The cost pressure is reinforced by structural cost disadvantages of co-operative banks because of their wide branch network. It restricts the flexibility of the co-operative pricing and condition policy corresponding material expenditure and personnel costs. Apart from this, an exclusive cost leadership orientation is contrary to the formal co-operative purpose of German co-operative law (Tschöpel (2010a), p. 13). It would be more likely to expect that a cost-effective strategy represents a prerequisite for the economic activity of co-operative banks. It is a necessary condition, but not a sufficient condition for a promising strategy (Theurl/Böttiger (2007), p. 7;
As a result, the cost leadership strategy for co-operative banks does not represent a sustainable and competitive strategic alignment.3

A focus strategy of co-operative banks has to be critically validated because of the grown market structures and the self-conception of financial co-operatives. Co-operative banks see themselves as universal banks, comparable to saving banks. They offer an almost complete portfolio of products and financial services additionally to the option to get further financial products and services by internal or external partners of the co-operative network (Tschöpel (2011), p. 21). Because of those facts co-operative banks have to refuse a strategic alignment focusing on individual distribution channels, products, services or specific customers, what would be contrary to their own conception.

The possibility of a differentiation strategy can be conclusively argued on cognitions shown in chapter 2.1. It was pointed out that the membership is a core element of the co-operative governance. The formal rules of co-operatives include specific rights and obligations for members of the co-operative bank, especially in relation to their possibility of participation, control and co-determination (Tschöpel (2010a), p. 9). The members are important for the financial co-operatives because of their multiple functions as status as service partners, owners and participants in decision-making processes (Theurl/Böttiger (2007), p. 7; Henschel/Thümmel (2005), p. 125). Therefore, membership orientation may possibly be an element of differentiation and it needs to assess whether it withstand a validation as potential competitive advantage concerning the differentiation strategy.

For this reason an analysis of core competencies by Prahalad/Hamel (1990) will be presented specifically for co-operative banks in the following. This analysis is based on the hypothesis that a strategy focusing on core competencies may help to achieve or ensure competitive advantages, especially differentiation advantages (Hellinger (1999), p. 258f). The criteria for

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3 Co-operative earnings are not an expression of an isolated cost orientation, but they implicate the co-operative success of their members; THEURL/BÖTTIGER (2007), p. 7.
the identification of core competencies are the possibility to provide potential access to a wide variety of markets (1), the contribution to the perceived customer benefits (2) and finally, the difficulty for competitors to imitate or substitute (3) those core competencies (Prahalad/Hamel (1990), p. 4ff.).

(1) Provide potential access to a wide variety of markets

Documented by several studies, co-operative members are economically more valuable than customers without being members of the co-operative bank simultaneously (Beuthien et al. (2008), S. VII). They show a higher usage rate of products and services and a higher level of loyalty to their co-operative institute. The possibility to transfer this potential to other business areas of the co-operatives or their network partners is obviously given for members (Geschwandtner/Kuttler (2007), p. 23). The member’s satisfaction in relation to a successfully implemented member oriented strategy can allow a higher potential to acquire additional members and customers and get access to additional markets, especially those markets of service partners because of higher cross-selling potential.

(2) Contribution to the perceived customer benefits

The assertion of core competencies is possible, if they are able to contribute a significant and tangible customer benefit. A strategic alignment focusing on membership may help to ensure an additional long-term benefit for members, because of the sustainable orientation on preferences and needs of members. Due to their co-determination and participation rights, they can assert those interests providing the greatest benefit for them. For this reason and for the purpose of communication, the member’s success and satisfaction in co-operative service and participation processes have to be objectively transmitted and the additional benefits have to be ideally quantified (Hellinger (1999), p. 272).

(3) Difficulty for competitors to imitate or substitute

Company’s core competencies could lead to a long-term competitive advantage, if there are difficult to imitate or substitute by the company’s competitors. The co-operative membership is quite different from a partnership
of corporations, especially in relation to the support of members and the possibility to dispose own shares. Competitors have no obvious option to establish a comparable statute of membership orientation with comprehensive co-determination and participation rights.

Therefore, the membership orientation of co-operative banks fulfilled the criteria of core competencies in relation to the results of PRAHALAD/HAMEL. According to the assumption of a potential link between differentiation advantages and core competencies, the co-operative membership orientation could be interpreted as a differentiation attribute (Greve (2002a), p. 25ff.; Greve (2002b), p. 117). It allows a unique option to set apart from competitors of the banking sector. The results of the validation of strategic alignments shown above are visually summarised (see figure 1).

![Figure 1 – Validation of strategic alignments](image)

### 3 The MemberValue as strategic alignment

The cognitions shown above lead to the conclusion that a consequent membership alignment is a promising and theoretical founded strategy for co-operative success (Weidmann/Strecker (2009), p. 181; Kipker (2004), p. 4). As pursuing a competitive advantage, this strategy may help strengthening and further shaping the strategic focus of co-operative banks and may help to ensure the economic stability and sustainability for their future (Tschöpel

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4 An alternative possibility for an adequate differentiation strategy is not applicable. For example, a differentiation in relation to quality seems unlikely. It has to be expected that it is a necessary requirement. Co-operatives have to offer secure and qualitative products and services to compete in the banking sector at all.
(2010a), p. 1). For practical application, the MemberValue-strategy of THEURL (2002) will be presented in the following as an appropriate and consistent management approach for a membership-orientation. It is based on a contemporary and theoretically linkable interpretation of the co-operative supportive principle and mutualism of financial co-operatives (Theurl (2002), p. 83ff.; Theurl (2005a), p. 136ff.). In addition to the theoretical basis (chapter 3.1), the conception (chapter 3.2) and an approach for its operationalisation (chapter 3.3) will be presented in the following.

3.1 Theoretical derivation

The registered co-operatives represent a form of cooperation between companies and / or natural persons and allow a superior achievement of micro-economic objects compared to an isolated approach. For this reason they can create economic values, which would not exist without such a cooperative economy. These values are named as MemberValue and entitled to members as core cooperation partners. Because of members’ institutional function as service partners, owners and decision participants, the MemberValue expresses the total value of the entrepreneurial activity of co-operative banks and represents the benefit of the financial co-operative for its members (Theurl (2002), p. 84f.).

The MemberValue corresponds with the primary co-operative object to support members and represents the long-term condition for economic success (Theurl (2002), p. 84; Theurl (2005), p. 137). Thus the MemberValue aims at the representation of the co-operative membership as an element of differentiation and core element of the co-operative governance structure as already mentioned.

The contents of such strategy are not defined by law in contrast to its purpose. Because of scope of interpretation, the actual strategic alignment can deviate from the legal purpose (Tschöpel (2010b), p. 1f). Co-operatives have to deal with the task to transfer the membership orientation into contemporary strategies and to develop communicable contents and terms.
3.2 Conception of the MemberValue

For practical application it has to be critically examined, in which way the MemberValue-strategy could be interpreted and what precise values could be created for co-operative members. A suitable conception requires the identification of elements of the MemberValue. Because of theoretical and practical necessity and wide variety of members’ interests the differentiation of MemberValue-elements and relations has to be ideally done by sector and by co-operative individually and separately.\(^5\)

Within the MemberValue-Strategy, the components are structured by the specific functions of co-operative membership. Thus the MemberValue consists of three interdependent components, which implies a coherent view. The direct MemberValue, indirect MemberValue and sustainable MemberValue allow an integrated analysis with short- and long-term value components (Theurl (2002), p. 85; Theurl (2005a), p. 139).

– The direct MemberValue summarizes those components as a result of the member’s function as service partner of its co-operative bank. For example secure services, competitive conditions and defined quality standards are mentioned (Theurl (2002), p. 85). Elements of the direct MemberValue are visualised in the following (see figure 2).\(^6\)

\[\text{Figure 2 – direct MemberValue}\]

\(^5\) The more heterogeneous the preferences and interests of co-operative members, the more difficult the participation within democratic decision-making processes for individual members; KEMPFF (2005), p. 170.

\(^6\) For a more detailed explanation of MemberValue-elements, see TSCHÖPEL (2011).
The indirect MemberValue results of the members function as owners of the co-operative with focus on their status as investors. It summarizes all pecuniary relations between members and their co-operative bank (Theurl (2002), p. 85; Tschöpel (2010a), p. 20). It is obvious that co-operatives can fulfill the indirect MemberValue if they ensure an efficient value creation and can transfer related payment flows to their members (see figure 3) (Tschöpel (2010a), p. 20). Additionally, the co-determination and participation rights – named as control factors – are also element of the indirect MemberValue.

<table>
<thead>
<tr>
<th>indirect MemberValue</th>
<th>pecuniary factors</th>
<th>control factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>refunds</td>
<td>co-determination rights</td>
</tr>
<tr>
<td></td>
<td>dividends</td>
<td>participation rights</td>
</tr>
<tr>
<td></td>
<td>participation on revenue reserves</td>
<td>...</td>
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</tbody>
</table>

**Figure 3 – Indirect MemberValue**

The sustainable MemberValue is also a result of the members function as owners, but with focus on their status as entrepreneurs. It summarizes all values as result of investments in financial co-operative sustainability and reliability. The sustainable MemberValue is closely related to an important object of co-operatives, not to support only current members but also ensure the future potential for members’ benefits (Weidmann/Strecker (2009), p. 184). The elements of the sustainable MemberValue for co-operative banks are presented in the following (see figure 4).

<table>
<thead>
<tr>
<th>sustainable MemberValue</th>
<th>option benefit</th>
<th>investment factors</th>
<th>interaction factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>participation possibilities in the future</td>
<td>investments in strategies, structures, processes, organisations</td>
<td>regional engagements</td>
</tr>
<tr>
<td></td>
<td>long-term reliability</td>
<td></td>
<td>social responsibility</td>
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<td></td>
<td>...</td>
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</table>

**Figure 4 – Sustainable MemberValue**
As a fundamental requirement, the co-operative objects and sub goals have to be harmonised with the long-term and superior strategic object of co-operative banks – the creation of the MemberValue (Tschöpel (2010b), p. 5). Therefore, the question about the operationalisation of the MemberValue has to be answered.

### 3.3 Operationalisation of the MemberValue

To deal with the question about creating co-operative values, the MemberValue-strategy of financial co-operatives has to be validated in relation to qualitative and quantitative aspects by their members (Blümle (2005), p. 223f.). This quantification may allow members’ validation of consequences of their management’s decision. An objective MemberValue also allows interinstitutional benchmarking analysis. This may help to identify urgent needs for activities for the co-operative management. This could lead to an increase of co-operative efficiency because of adequate activities. Additionally, co-operative auditing associations can verify the support of members by co-operative banks objectively, what they legally have to do. On this basis, they can develop auditing standards.

The quantification of the MemberValue is a main task for co-operative banks because of the heterogeneous interests of their members and wide variety of objects (Lamprecht/Donschen (2006), p. 6; Boettcher (1979), p. 199). Because of that fact, an adequate approach for quantification of the MemberValue will be presented in the following. It should help to derivate recommendations for management activities. This would relate to a MemberValue-management. The primary object for the operationalisation is to establish the MemberValue as a core figure for a transparent and consistent communication and disclosure instrument, named as MemberValue-reporting.

The approach for quantification of the MemberValue is directly connected with its conception of components in relation to the member’s function. For this reason, an explanatory model has to be derivate. It should present hy-

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7 According to the German co-operative law (§ 53 Abs. 1 GenG).
pthesis-based relations between individual parameters and influence factors and the MemberValue as an aggregated success figure. Therefore, it has to be clarified how those factors and indicators could be made measurable within the model and in which way they are connected with the dimensions of the MemberValue. Additionally those indicators have to be statistically evaluated by a survey of their members for each individual co-operative.\footnote{Such a survey should request the expectations and the fulfilment for each service parameter of co-operative members. Therefore, indicators for each parameter have to be transferred into precise questions for the survey, compare TSCHÖPEL (2010b), p. 24; HENSCHEL/THUMMEL (2005), p. 125; LAMPRECHT/DONSCHEN (2006), p. 18.}

Based on the explanatory model, the MemberValue-management of co-operative banks has to basically identify the preferences and interests of their members – the success factors. On this basis possible deficits of the membership orientation may be understood and managed by concerning management activities. This can lead to a long-term and additional benefit for co-operative members. Thus, the MemberValue-strategy has to be consequently implemented in a long-term and members preferences have to be permanently validated. Therefore co-operative banks are able to derivate membership activities based on an obvious strategic alignment (TSCHÖPEL (2010b), p. 5).

The MemberValue-reporting is a communication and disclosure instrument. With this instrument, the co-operative creation of values can be made objectively clear (LAMPRECHT/DONSCHEN (2006), p. 18). On this basis this instrument may help to re-establish the exertion of influence and the active participation of co-operative members. This can increasingly lead to mutual trust between members and their co-operative bank (TSCHÖPEL (2010a), p. 24f.).

To summarise, the MemberValue-strategy may help to establish a long-term competitive advantage because of its adequate quantification and implementation of a MemberValue-management as well as a MemberValue-reporting. On this basis long-term relations between members and their bank can be stabilised and allow the creation of economic values for both sides, but especially for members.
4 Implications and summary

Due to the increasing complexity of the banking sector, co-operative banks have to face challenging tasks to realise and establish a successful competitive strategy. During the financial market and economic crisis, financial co-operatives proved to be economically viable because of their sustainable governance structure. Based on this, the present paper analysed the theoretical components of a promising strategic alignment of co-operative banks and its practical application in relation to governance elements.

Membership was identified as a core element of the co-operative governance and – within a strategic alignment – as a core competence of co-operative banks. This membership oriented strategy may help to achieve a competitive advantage for financial co-operatives. As a consistent management approach for the membership-orientation, the MemberValue-strategy by THEURL (2002) was validated by their terms, contents and consequences. It was shown that the concept of the MemberValue may help to close a research gap, which exists because of the lack of suitable concepts of operationalisation concerning the support of members and mutualism of financial co-operatives. The practical relevance of this kind of strategy was confronted by its requirements of practical application. A first approach for the quantification finalises this paper.9

Future research projects have to face the challenge to quantify and implement the MemberValue for co-operative banks. Afterwards, management activities concerning this matter could be established.

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9 In concrete terms, the quantification of the MemberValue will be developed within a research project at the Institute of Co-operative Research in Münster, Germany.
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