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The spirit of the law over its letter: the role of culture and social norms in shielding cooperative banks from systemic shocks

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The macroeconomic impact of banks' misconduct led users of financial services to be deterred from using the system to the detriment of market integrity and called upon policymakers and supervisors to turn to "culture" as a means to regain public trust and eventually guarantee the stability of the real economy. From this vantage point, the crisis showed that culture did indeed matter, as it can significantly influence the effectiveness of the decision-making process and, thus, the risk appetite/profile of banks. Culture and behaviour have been shown to be the main threats to financial stability that policymakers and supervisors have currently to cope with. What is already clear is that culture is an important subject to focus on when supervising banks. Nevertheless, the problem is that current academic thinking lacks both clarity and expertise on what "culture" is all about and how it should be implemented by banks. This article addresses this gap by exploring the illustrative case of cooperative banks. Extensive empirical evidence shows indeed that cooperative banks turned out to be more stable than commercial banks for several reasons related to the ownership structure and the business model. However, the extant literature fails to take into account whether cooperative values (ie, solidarity; mutualism; proximity; social commitment) contributed in motivating employees to do the right thing and to steer them away from reckless behaviour. The investigation brings to the fore the main questions of whether and how cooperative banks' values and culture played a role in ensuring the soundness and efficiency of risk-taking policies.

A. Introduction

The seemingly never ending corporate scandals triggered by misconduct and "unethical" behaviour by top- and middle-tier managers and directors are still common, widespread, phenomena across all sectors worldwide. From the Enron fiasco to the recent Volkswagen case, all these events have been a "wake-up call" for policymakers and regulators, given their serious impact on market stability. This observation holds particularly true for the banking industry, where the nature and magnitude of such phenomena are capable of eroding the "trust" that makes financial relations work. Lehman Brothers, AIG, HSBC, Northern Rock, Barclays, are a few examples drawn from the crowded rankings of the banking "Hall of Shame".

The rising scope and number of financial wrongdoings, stretching back over the last five years and culminating in the manipulation of Libor rates, indicate a need for a sharper focus on their potential macroeconomic implications as well as, in a pre-emptive course of action, on tools and measures to prevent the occurrence of misbehaviour. Conduct failures were detected as the major drivers of the recent financial scandals and misconduct cases and according to regulators, supervisors and international standard setters they represent the main challenge the financial sector is currently facing so as to regain public confidence and thus ensure market integrity.

While there is a broad and increasing consensus that misconduct events, even if localised at one entity, are capable of triggering a chain of bad economic consequences, at best, or even the collapse of the system, at worst, there still remains a great deal of confusion and uncertainty on how to control them. The extant research appears to be lacking in consideration of what role culture and behaviour can and should play in that respect. Up until now, very little literature has analysed how substantive rules promoting board level risk-management and effective decision-making processes should be designed so as to encompass risks having a potential impact on the financial system, sketching out fruitful avenues for further research in this field.

Misconduct can be tackled in many ways: raising banks' self-awareness on the cultural and behavioural failures behind reckless decision-making, promoting public awareness and discussion on banks' conduct and practices, or legal regulation reinforcing corporate governance measures. Although each and every one of these issues is relevant, and they should be seen as cumulative rather than alternative, we will focus on the first strategy: the ways in which culture can be used to counter such phenomena, by bringing to the fore and analysing the cooperative banks' case.

This article aims to emphasise whether and how cooperative culture (shared reciprocity norms fostering trust, solidarity network and spirit of collaboration and community) contributed in sheltering cooperative banks from the financial crisis. In particular, we deem that the spirit behind the letter of the law regulating cooperative banks is one factor that increases cooperative banks' resilience to systemic shock.

The investigation proceeds by attempting, in section B, to briefly recall the conduct scandals and their systemic impact (social costs). Section C outlines the systemic fallouts if misconduct should materialise. In that context, the essay examines how misconduct might jeopardise financial stability, in particular undermining public confidence. Section D brings forward a definition of what culture is about. Section E adduces evidence on cooperative banks' resilience to the financial crisis. Section F strives to point out whether and how a cooperative culture should play a role in preventing misconduct from coming about. Section G elaborates further on the interplay between juridical form, culture and resilience of cooperative banks. Finally, Section H suggests a way forward, wrapping up the findings on cooperative banks' culture.

B. Corporate scandals, systemic risk and social costs

According to statistics, since 2008 banking has gone from being one of the public's most trusted sectors to the least trusted in several economies around the world.[1] The European Commission's Consumer Scoreboard for December 2014 noted that the financial services market in the European Union still ranks low in terms of consumer satisfaction and trust.[2]

This outbreak of "restore trust" chest-beating was mainly triggered by the Libor scandal, which broke in the summer of 2012.[3] That malfeasance has proved to be something of a watershed.[4] Before it, in fact, the crisis had "just" told us that bankers were by no means as smart as we had thought they were, as their risk-taking was out of control to the point of recklessness. But after it, we also learnt that the industry was not only reckless in its habits, as great parts of it had become downright dishonest. The "culture" had been corrupted and such behaviour had then unleashed public anger.[5]

To be accurate, the Libor scandal is nothing but a "synecdoche" of an extensive, boundless, phenomenon which is still afflicting the financial industry. Misconduct is not a problem confined to the financial world, as the recent Volkswagen case showed us, but for the banking industry, more than anywhere else, the nature and magnitude of such phenomena are capable of eroding the "trust" that makes financial relations work. Several strands of "bad behaviour" have occurred over the last five years. The first was the widespread practice (fed by a "commission culture") of mis-selling financial products to consumers (notably, payment protection insurance). The second was the desire of many banks, in the pre-crisis "go-go" atmosphere, to increase market share regardless of price and risk considerations. Thirdly, the huge strides made in technological developments, with for example expectations of rapid responses to complex issues and questions (and the attractions of making quick returns) tended to prioritise ingenuity over integrity. Fourthly, of course, there were the scandals related to the foreign exchange market and the "benchmark" rates.[6]

Banks faced an unparalleled level of regulatory penalties and court settlements as a result of their misconduct, which have been broadly termed as "conduct costs".[7] The banking industry racked up more than US$230bn in fines, settlement fees and redress costs between 2009 and 2015.[8] There is no reason to suppose that the figures for the next period will show much improvement. Fines and settlements are rightly aimed at punishing firms for the costs to society caused by misconduct, and are clear indications of regulators as well as politicians seeking to placate public opinion through compensatory justice for current and past misdeeds by financial institutions.[9] As a matter of fact, nevertheless, over the past five years the huge amounts of penalties happened to result in a negative feedback increasing the uncertainty related to the occurrence of "conduct costs".[10] The risks attached to the way in which a firm and its staff conduct themselves are thus gathering momentum: the European Banking Authority mentioned misconduct risk as one of the current major issues supervisors and financial institutions have to deal with, not just for the soundness of the individual market participants but for the integrity of the whole market.[11]

However, although it is clear that culture is an important subject to focus on when regulating and supervising the financial institutions,[12] there still remain more questions when answers in identifying *how* this should be done.[13]

Lack of focus on final customers and investors, mis-selling of financial products, violation of rules and manipulation of markets are dominating the public debate not just because they are astonishing events as such, but mainly because they are causing market participants to be deterred from using the system.[14] Despite being typically firm-specific, misconduct thus amounts to systemic risk as long as it is capable of igniting a series of consequent bad economic consequences (cumulative losses) affecting several market participants and ultimately threatening the system itself.[15]

The financial crisis has revealed that macro-financial factors, such as the interconnectedness of markets and institutions and financial globalisation, do indeed matter and play an important role in determining the size, nature and propagation of systemic risk. By virtue of joint exposures and interlinks in the financial system (so-called "cross-sectional dimension"),[16] a trigger event, such as an economic shock or the failure of one financial institution, causes a chain of bad economic consequences, making financial institutions vulnerable to common sources of risk.[17] The high degree of interrelation within financial institutions makes the financial system an interwoven "network".[18] Thinking of the financial system in terms of a network points out the potential for shocks that originate at one, localised, institution to set in motion other failures/losses alongside the financial system, and beyond.[19]

The transmission of risk through a network may serve for good, resulting in a dispersion of risk among members (the so-called phenomenon of absorption, by means of the interlinks),[20] but it might also act negatively, ie amplifying shocks where the correlation among financial institutions increases the magnitude of the event itself leading eventually to systemic collapse.[21] The latter scenario could likely unfold in cases related to misconduct, given the high reputational damage attached to wrongdoings, frauds and reckless business policies, stirring dissatisfaction and deterrence from using the system within all the economic actors (from other banks as counterparties to the end consumers). In such a situation, the single event is likely to trigger a chain of negative effects rather than a balance of risk exposures in the whole sector.

The direct relationship between corporate culture, public confidence in the financial system and market stability lends this area a high degree of topicality, from both an academic and a practical standpoint.

This article will address the problem by turning to cooperative culture as a remarkable example of how social values can act in the greater good, integrating corporate governance measures and structures in the quest for an effective decision-making process.

Before delving into the "what" and the "how" of cooperative banks' culture, however, the problem should be better defined first. The next section therefore will elaborate on the root causes of the massive scale/impact of misconduct risk on the entire banking system.

C. Behavioural failures and the need to ameliorate culture as a means to restore public trust in the financial sector

Although some commentators are sceptically tempted to disregard cultural elements as completely irrelevant,[22] there is currently a high degree of consensus upon behavioural failures as one of the main factors triggering the financial crisis in the first place.[23] Several empirical studies show that culture did indeed matter and, more specifically, that detrimental patterns of behaviour at board and management levels, paired with inadequate corporate governance structures, amounted to the root causes of most of the famous collapses and scandals worldwide.[24] As Goglio and Alexopoulos maintain, the crisis revealed the detrimental systemic effects of incentives based on greed,[25] calling for greater focus on how human decisions are made and behavioural considerations formed.

A large body of research puts forward strong arguments on the interplay between behaviour and business model, stressing particularly how the culture of a financial institution influences its financial performance.[26]

In that respect, for instance, extensive analysis of the manipulation of the interest rate by certain employees revealed behavioural failures such as problems of faulty leadership, misguided strategic choices, ineffective performance management or negative effects of incentives.[27] And such failures were by their very nature capable, in combination with weak internal control systems and other inadequate structural governance measures,[28] of fostering the manipulative behaviour which led to the resulting impairing events. On top of that, the reputation of the banking sector as a whole suffered significant damage, and its systemic repercussions make misconduct episodes illustrative of the way behaviour and culture within a financial institution influence its individual financial performance as well as, on a higher altitude, the stability and integrity of the entire financial system.

Put another way, much of the analysis of the financial crisis and its consequences points to human behaviour as the key driver in what went wrong, revealing that capital and liquidity requirements were not sufficient to preclude the excessive risk-taking that ultimately contributed to financial instability.[29]

Policymakers, regulators and supervisors are called upon to deal with the aspects of the cultural and organisational context that made reckless behaviours possible. In that respect, although there is a great degree of consensus about the relevance of culture, this still left all economic actors (supervisors and supervised entities alike) with a formidable problem of how to "operationalise" such a consensus, struggling with individuating behavioural aspects capable of affecting the decision-making process, first, and with converting such behavioural elements into enforceable measures and or rules, next.

In other words, in the wake of the recent financial scandals, our impression is that behavioural elements are increasingly considered and treated as a complement to, rather than a substitute for, corporate governance measures prescribed by binding law.[30] In this perspective, more than a few of the recent bodies of law, provisions, and guidelines concerned with corporate governance of banks are indeed taking a more integrated approach, bridging the gap between the hard (structural element) and the soft (human element) dimensions.[31] Very little literature has nevertheless analysed how behavioural determinants may complement and properly implement the substantive rules promoting board level risk-management and an effective decision-making process, and further research would certainly be beneficial.

Indeed, culture can be approached and elaborated upon in many ways: struggling with drawing the imaginary line where regulation ends and the cultural dimension begins, promoting public awareness and discussion on banks' conduct and practices, or raising banks' self-awareness on the cultural and behavioural failures behind reckless decision-making and distilling at the same time social norms, philosophies, goals and standards which are capable of enhancing the effectiveness of risk-taking policies. Although each and every one of these angles is relevant, some restrictions will be introduced in order to keep this investigation within manageable but meaningful proportions.

First, we will focus on the latter strategy: the ways in which social and corporate values and norms can be used to counter misconduct phenomena, turning to cooperative banks' culture as a material, illustrative, example of how a set of entrenched social cues plays out in practice. Second, the scope of the investigation will be narrowed down to some of the features that single out cooperative banks as a different and special category of financial institution, such as a long-term focus on customer value, strong local ties and large networks, business principles of integrity, sustainability and reciprocity.[32]

D. On the concept of culture

At the risk of some oversimplification, culture can be framed and defined as the complex set of values, beliefs, philosophies and symbols that characterise the way in which a firm conducts its business.[33] It encompasses the deep structure of organisations, which is rooted in the values, beliefs and assumptions held by organisational members. Culture is typically learnt by members when they cope with external and internal problems and taught to new members as the correct way to perceive, think and feel.[34]

According to Schein culture should be qualified as "a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, and that have worked well enough to be considered valid and, therefore, to be taught to new members as the correct way you perceive, think and feel in relation to these problems".[35]

These members' assumptions and beliefs define how the organisation is viewed by those members and by the outside world. Thus, they define the organisational purpose and provide members with behavioural norms. For employees, organisational culture represents a sort of social glue that holds the organisation together by providing appropriate rules and standards for the ways employees should behave.[36] In doing so, culture consequently reduces employees' uncertainties and anxiety about appropriate and expected behaviour in the working environment.[37] Employees must have a sense of what reality is all about in order to function within a firm, and culture represents the system of such collectively accepted meanings.[38]

Building upon the existing behavioural economic literature and cognisant of the contradictory findings across some of the previous contributions, we consider it possible to reconcile and improve upon some of the prior work on the behavioural drivers, contributing to a greater understanding and awareness of behaviour and culture in the financial sector. We adopt the view that some social processes in relation to key decision-making behaviours are as relevant as structural measures of corporate governance.[39] These social processes are capable of impairing the performance of a financial institution by influencing decision-making and risk-appetite/profile, leadership style, interaction and communication between people, and group dynamics, just to name a few areas out of an almost infinite list.[40]

Let us provide an example. As much as several initiatives aimed at enhancing corporate governance measures may go some way in the direction of overcoming several deficiencies in risk-taking policies, particularly focusing on board level procedural safeguards, the problem of the human element necessarily involved in the rule itself (behaviour, culture, attitudes) appears to be overlooked. In that respect, for instance, the CRD IV provides additional requirements for the management body's members to increase and strengthen the amount of time devoted in fulfilling properly their duties.[41]

Although absolutely reasonable, in principle, the commitment to spend enough time in performing the activities might fall short of reaching its purpose insofar as it has not addressed the problem of "how" directors will spend this time. As long as there is no commitment to communicate effectively by taking into consideration the human element behind decision-making, all measures designed at improving corporate governance will be lame. Supervisory reporting shows that boardrooms are often monopolised by one or two board members; where docile directors are not capable of challenging a dominant CEO, strategic decisions will be the result of impulsive or opportunistic decision-making processes, irrespective of how much time directors are required to devote.

From this vantage point, cooperative banks' experience could certainly shed some light on how shared values, culture and a strong identity, as the features that characterise this category of banks, can have a meaningful impact on the way an organisation conducts itself.

E. Cooperative banks and the financial crisis

When the crisis unfolded in 2007–08 cooperative banks were mostly shielded from the financial storm that hit the banking industry, showing a remarkable ability to overcome its resulting side effects.[42] Besides, extensive empirical research reviewing cooperative banks' performance in the period prior to the crisis, and by comparison to the performance of standard commercial banks, adduces further evidence of their ability to cope with adverse external economic shocks.[43]

It is widely agreed that, put in a very schematic manner, the cooperative banks' resilience to systemic turmoil has to be attributed to a steady, prudent and balanced banking activity aimed at serving firms and households in their local area. Managers engaged in a relatively low risk appetite policy, with a proper risk diversification strategy and policy.[44] Cooperative banks had in fact pursued a traditional, conservative and efficient originate-to-hold (OTH) model of lending focused on sustainable retail banking and funded mainly by retail deposits and plain vanilla bonds.[45] On the asset side, cooperative banks had maintained a solid liquidity buffer and had not invested in toxic assets or in exotic investment instruments: this led to good liquidity and sound asset quality. On the other hand, cooperative banks were (and still are) some of the more highly capitalised institutions in Europe as they seldom distribute profit but add it to their reserves or the banks' own funds.[46] Furthermore, high capital reserves provide cooperative banks with opportunities to obtain relatively cheap capital market funding, because this entails fewer risks for other creditors and thus lower risk premiums.[47]

On top of that, coherently with the spirit of the rules governing cooperative banks, they have essentially relied on a large equity base, prudent use of securitisation, transparency in business practices and a reliable internal safety net and have always enjoyed a good reputation.[48]

These characteristics are reflected therefore in a steady increase in the number of members and clients, as a consequence of the trust that cooperative banks have earned in their local areas.

Despite the intrinsic issues arising out of the cooperative corporate governance model, particularly by virtue of their peculiar ownership structure, the concrete experience has nevertheless revealed that (agency) theories could not have been further from the truth, since cooperative banks reacted very much better to systemic distress than their competitors did.[49] Or, at least, the facts indicate that other elements and characteristics outweigh any negative effects on decision-making processes attached to the way by which cooperative banks are organised, elements attached to the core principles of cooperative organisations.[50] Since cooperative values are strongly linked to risk management, their "banking business model flows from their underlying principles and commitment to investing in the real economy and to creating benefits for members, customers and communities".[51] And indeed the cooperative movement's past philosophy is strongly rooted in the organisations, which always refer to its guiding principles as witnessed in cooperative banks' annual reports.[52]

The next section will elaborate further upon the relationship between the cooperative model, corporate purpose and cultural values.

F. Cooperative banks' values and culture

All cooperative banks across Europe, despite some differences in the model, present a common way of conducting business, according to a paramount and basic set of principles that marks the European cooperative banking sector as "commonality with diversity".[53] At its simplest, the essential feature of cooperative banks, paired with their governance peculiarities,[54] is to be traced in the overarching purpose of maximising customer-members' benefit over profits.[55] Such a priority is what traditionally characterised the stakeholder value (STV) banks as contrasted to shareholder value (SHV) banks.[56] Although all banks (irrespective of their ownership and capital structure) need to earn profits in order to maintain the integrity and viability of the business, a key characteristic of cooperative banks is that maximising profits and the rate of return on capital are not the dominant business objectives of cooperative banks. The typical cooperative seeks to maximise consumer surplus and the interests of its members.

> "The primary mission of co-operative banks is to promote the economic interest of their members, who are their customers. Co-operative banks strive to do so by offering quality products and services at attractive prices from the perspective of what is good for the customer. They have an impact presence on the conditions of products in the whole banking market and support the economic and social integration of individuals."[57]

This concise formulation embodies the roots of cooperative banking and is illustrative of the way cooperative banks engage in pursuing objectives and values (namely solidarity, self-help, fighting against exclusion, social and environmental concerns, resilience, proximity, trust and governance) that are highly sensitive in customers' eyes and that single out cooperative banks from other financial institutions.[58]

The customer focus is indeed interpreted by financial users and the public as the mindset cooperative banks adopt in performing the business, and this "guiding principle" or "attitude" influences both how consumers perceive cooperative banks and how cooperative banks perceive themselves,[59] and, more importantly, sheds some light on what *motivation* lies behind the action of economic agents.

This investigation elaborates on Spear's model of "cooperative advantage" which emphasises cooperatives' particular ability to perform better by means of the "values" and "social cues" the cooperative model is built upon.[60] Such values, the argument goes, in particular lead to resilient and flexible organisations that are both capable of stabilising a community economy and of getting over a negative economic outlook or systemic distress. In the same vein, the study by Novkovic shows that cooperatives exhibit a great resilience to market failures, by virtue of cooperative values and principles and "motivations" beyond just returns and profits.[61] Regarding specifically the credit sector, these values are indeed embedded in the ways cooperatives do banking, resulting eventually in a reinforcing mechanism between the juridical form of cooperative banks, culture and performance.[62]

As long as cooperative banks are projected at the maximisation of the long-run value of the firm and their managers make decisions so as to accommodate the interests of all stakeholders in a firm (including employees, customers and communities), behavioural incentives, integrity values and other social determinants make managers unaccountable for their actions.

The STV paradigm is indeed capable of entailing spill-over effects on behaviour and culture, since its underlying corporate purpose and vision are likely to tap into the energy and enthusiasm of employees and managers to spontaneously challenge and improve the behavioural patterns influencing the decision-making process.[63]

Seen in this light, cooperative banks' corporate vision, strategy and tactics are at the basis of the spirit behind the letter of cooperative rules and juridical form that unite participants in the organisation in its mission.[64]

A recent investigation explored the connection between the common features and the relative performance of 15 European cooperative banks in 10 Member States over the latest business cycles. The outcome confirmed that cooperative-specific decision-making mechanisms seem to lead to a relatively low risk appetite and high capitalisation, a high degree of stability and a predominant focus on retail banking.[65]

As a matter of historic tradition, cooperative banks are important organisational instruments for coping with social and economic failures and for assisting in the development and revival of local communities.[66] The letter of the laws regulating cooperatives embeds these roots, capturing the spirit of such a phenomenon that is the result of paradigms that combine together social values, policy directions and economic theories.[67] As Majee and Hoyt astutely observe, "cooperatives bring people together to meet a shared need through operation of a democratically controlled business … and build capital in communities where they are located".[68]

Far from the current pattern of human action based on self-interest detected as the factor igniting corporate scandals worldwide, cooperative banks conduct their business in accordance with the sociological thought that emphasises the propensity for reciprocity and solidarity. In such a perspective, the firm is seen and qualified as a coordination mechanism directed at solving collective problems (credit needs) through the provision of (financial) services.[69]

Put in more detail, cooperative banks are culturally characterised by the following aspects.[70]

1. Trust and reciprocity

As cooperative banks' primary goal is to serve the customers' interests over profits maximisation, trust represents one fundamental value. Trust should be characterised as one imperative of social life, which comes along with honesty and self-respect.[71] The fact that the firm is also small and local deepens this reciprocal knowledge and increases confidence. This feature, coupled with the cooperative membership characteristic, helps to establish a long-term and customised bank–client relationship.[72] Reciprocity is promoted by trust in similar behaviour by others, which may generate a moral obligation of reciprocation, that induces instinctive compliance with norms, without a specific or rational justification to it, thereby strengthening an attitude to conform.[73]

2. Solidarity

Cooperative banks have traditionally promoted entrepreneurship at the individual level, consequently affecting the common good of society. Moreover, they play a key role in local and regional development by reinvesting capital at the local level.[74] The mutual guarantee systems among cooperative banks provide another form of solidarity at two levels. First, capital is made available for other people and companies that have an economic need; the local constituents have the opportunity to support each other. Secondly, cooperative banking systems provide mutual guarantees in case of default.

3. Mutualism

According to the mutualism doctrine, individual and collective well-being can be achieved only by common action and it is the guiding principle for long-run stability and cohesion of modern societies, helping to overcome the "collective goods" problem.[75] Many cooperatives' initiatives are based upon the mutuality principle and are aimed at creating a sense of togetherness, common identity, trust and mutual care.[76]

4. Proximity and "relationship banking" via local presence

Cooperative banks usually have a good physical proximity, thanks to their dense networks of branches.[77] Proximity is further reinforced through participation in numerous social networks and by actively supporting the local communities, which increases the public perception of cooperative banks as part of the community, understanding their customers and speaking their language.

The relationship-based business model provides, by its very nature, a fundamental scheme or paradigm on the self-perception of all employees and contributes in moulding the pattern of human action at the basis of the typical prudent and conservative risk appetite.[78]

The close proximity to their customers gives cooperative banks a set of information advantages,[79] in order to monitor constantly the exposure to credit risk. In this sense, it is also argued that cooperative banks could benefit from the peer-monitoring mechanisms that develop in the context in which the bad behaviour of each one has a negative impact on the entire community, producing a disadvantage and a sort of collective animadversion. Several studies have highlighted the role of social sanctions within a tightly knit community, which may be a valuable substitute for the missing incentive of enforcement roles.[80]

5. Heterogeneity and group dynamics

Customers and members of cooperative banks are represented in the bank's governance structure through participation on boards, membership councils, etc. This ensures the members' interests are the top priority and, at the same time, by becoming a member, customers can influence the banks' policies. From a behavioural standpoint, diversity brought through member ownership entails a consensus-driven approach and prevents a strong focus on only one stakeholder fostering instead a democratic-driven decision-making process.[81]

6. Social commitment and the "cooperative spirit"

As local contributors, cooperative banks are part of the economic and social environment of their customers. They naturally take initiatives, aiming to improve the clients' environment and provide financial services. A proportion of the banks' earnings are reserved to promote economic initiatives and include local society. A good economic and social climate benefits the customers and also the bank. Social commitment therefore means investing in the customer. In doing so, cooperative banks have a tradition of fostering the development of local communities.

Cooperative banks support small-scale local initiatives through financial funding, as well as access to their networks and unpaid services of employees. They support programmes ranging from microfinance to financial education of groups experiencing long-term unemployment.

G. Cooperative values: the spirit of the law regulating cooperative banks

Cooperative banks in every jurisdiction sit within a legal framework that, despite several differences, strives to underpin and protect the cooperative identity.[82] Legal frameworks regulating cooperatives are expected to incorporate the essential features that distinguish cooperatives from other business organisations and should indeed ensure that the letter of the law is such as to ensure the spirit of it is appropriately reflected.[83]

Although there is great variety that connotes the law of cooperatives, it is possible to recognise the legally distinct identity of cooperatives[84] as the outcome of the set of rules that are designed at making the cooperative entity as "an organisation acting in the interest of its members, aiming to satisfy their common economic, social and cultural needs".[85]

Cooperative culture proved to be one of most important factors in determining organisational performance, by affecting the way in which decisions are taken within the organisation.

Most cooperative banks are self-aware of their cultural peculiarities, and recognition of the principles in the reports as pointed out, for instance, by the banks Landshypotek, the Swedish cooperative bank,[87] or the DZ Bank in Germany.[88] As a case in point, the Swiss Raiffeisen Group describes cooperative principles as components of their corporate strategy: "With its basic strategy approved in 2014, Raiffeisen continues to proclaim fundamental cooperative values". In the instant case, this implies "the creation and maintenance of the support group, the creation of intangible and tangible values, the subsidiary principle and democracy".[89]

The values cooperative banks publicly abide by have the prerogative to create a working atmosphere fostering clarity of high-profile and strategic objectives and satisfactory adherence to them. Proximity, solidarity and social commitment are indeed shared values that define what is important and define appropriate attitudes and behaviours for organisational members and employees.[90] When applied to cooperative banks, culture should be viewed and treated as the shared, common, rules governing cognitive and affective aspects of membership in an organisation, as well as the means whereby they are shaped and expressed.[91] In fact, the cooperative philosophy is capable of influencing employees to understand and agree about what needs to be done and how to do it. It conveys the process of facilitating individual and collective efforts to accomplish shared objectives, consistently with the vocation and mission of a stakeholder value bank (STV).[92]

The fact that the business objective of cooperative banks is centred on increasing the benefit of its members, who typically maintain a long-term relationship with their bank,[93] has several implications for how decisions are made, what the incentives behind them are and how perceptions are touched upon. Cooperative values have indeed a lot to do with motivating decisions and conduct, particularly incentivising a spontaneously correct behaviour and promoting the right decision. The right decision is in fact the outcome that is ultimately oriented to the market, the economy and the broader community with a spirit of solidarity and reciprocity.

H. Final remarks

There is a commonly held belief, and a wide consensus, that loss of focus on end clients was detected as the overarching factor that triggered the crisis in the first place.[94] This outbreak of "culture" chest-beating is symptomatic of a desire to go beyond the letter of the laws and to abide by (or most appropriately conform to) the spirit of those laws. And the spirit of those laws encompasses a certain underlying behaviour or culture that is the precondition, or at least the contributing factor, to achieve the purpose of the law. The balance between the two is in need of redress.

Cooperative banks have a strong connection between risk-taking and the moral narrative behind their organisational purpose, as values are commonly perceived to be an integral part of the business model.

Cooperative banks offer indeed a great example of how shared values, strong culture and integrity goals do indeed matter in preventing financial institutions from adopting reckless decisions as well as from being badly hit by systemic failure as would have happened in the absence of such values. To escape from the brink of disaster we need acts of responsibility, able to change usual behaviours. In the quest to have bankers tied to the mast at the sirens' call of self-interest, cooperative banks can contribute in increasing awareness about culture relevance, at the same time teaching us how to go beyond the selfish individualism at the roots of the current instability.

Most importantly, cooperative banks can suggest a way forward so as to regain public trust in the banking sector: incentives based on cultural and behavioural aspects (like trust, solidarity, proximity, social commitment) that are capable of promoting and nurturing the *right* decisions and the *right* behaviour ought to be properly emphasised by regulators and supervisors, setting aside the over-reliance on the various efforts to disincentivise *bad* behaviour.[95] ■

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1 Edelman Trust Barometer (New York, 2016). Available at http://www.edelman.com/insights/intellectual-property/2016-edelman-trust-barometer/, accessed 4 March 2016.

2 "Banking services are the worst performing cluster from a consumer perspective. […] The cluster scores particularly low on trust": the European Commission's Consumer Scoreboard available at http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/10_edition/index_en.htm, accessed 4 March 2016.

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5 SL Rutledge, "Consumer Protection and Financial Literacy", World Bank Policy Research Working Paper, 2010, 21; Swiss Financial Market Supervisory Authority, "FINMA Investigation into the Submission of Interest Rates for the Calculation of Interest Reference Rates such as LIBOR by UBS AG" (19 December 2012).

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7 According to the definition provided by the Conduct Costs Project (CCP), "conduct costs" means all costs borne by a bank in connection with any of the following:

"(i) Regulatory proceedings, specifically (but not exhaustively):
  a) fines or comparable financial penalties imposed on the Bank by any Regulator;
  b) any sum paid to a Regulator or at the direction of a Regulator in settlement of proceedings of any kind;
  c) any sum paid to, or set aside to be paid to, any third party or parties to the extent required by any Regulator; and
  d) any sum paid, or set aside, for the purchase (or exchange) of securities or other assets to the extent required by a Regulator and (if such information is available) to the extent such sum exceeds the open market value of such securities or other assets as at the date of purchase;

(ii) any costs, losses or expenses which are directly related to an event or series of events or conduct or behaviour of the Bank or a group of individuals employed by the Bank for which any fine or comparable penalty has been imposed or any censure issued by a Regulator;

(iii) any sum that has become payable as a result of, or in connection with, any breach of any code of conduct or similar document entered into, or committed to, at the request of, or required to be entered into or committed to by, any Regulator or any public, trade or professional body;

(iv) any loss of income or other financial loss attributable to a requirement imposed by a Regulator to place money on deposit with a central bank or other institution at below the market rate of interest, being a requirement imposed in connection with a breach of law or Regulatory requirement;

(v) any sum paid in connection with any litigation (whether ordered to be paid by a court or tribunal or in settlement of proceedings) where the litigation involved allegations of material wrongdoing or misconduct by senior officers or employees of an institution which were not refuted;

(vi) any other sum, cost or expense, not falling within any of (i) to (v) above that is paid pursuant to an order or requirement of a Regulator and which is a result of any breach of any regulatory requirement or law."

Available at http://ccpresearchfoundation.com, accessed 4 March 2016.

8 According to the CCP Research Foundation outcomes (survey based on a sample of 15 major banks): http://www.ccpresearchfoundation.com/. See also the accurate data provided by the European Financial Stability Board, ESRB Report on Misconduct Risk in the Banking Sector (June 2015).

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13 The theme of ethics and morality in banking has been widely taken up right after the mentioned financial scandals. On this topic, see, eg, R McCormick, "What Makes a Bank a 'Sustainable Bank'?" (2012) 1(Part 1) *Law and Economics Yearly Review*77. See also Financial Reporting Council, *Developments in Corporate Governance and Stewardship 2014* (January 2015).

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