

***THE INTERACTIVE DIMENSION OF  
GOVERNANCE: THE CASE OF A  
COOPERATIVE BANK.***

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## Abstract

Our study draws a parallel between control levers and forms of governance. The results indicate a strong interactive component of mutual governance, an organisational learning process that concerns both managers and directors. Mutualist values do not always contribute to limiting the powers of managers. Elected members actively participate in the internal control of the firm.

Cognitive governance, organisational learning, mutual banks, control levers

Cooperative banks have weathered the financial crisis somewhat better than publicly traded banks (Chiaramonte et al., 2013; D'Amato and Gallo, 2017; Bruno and Iacoviello, 2020). They occupy an important place in the banking system of many European countries (Groeneveld and Sjauw-Koen-Fa, 2009) and contributed to the resilience of the banking sector after the 2008 financial crisis. The reasons for this greater resilience lie in their characteristic democratic governance (Bruno and Iacoviello, 2020) and the business model based on traditional banking activities (D'amato and Gallo, 2017). Profit maximisation is not pursued (D'Amato and Gallo, 2017). The literature defines these institutions as "ethical banks", insofar as they pursue two goals: economic but also social profitability (Fonteyne, 2007; Barbu and Vintila, 2007; Ayadi et al., 2010; Relano, 2011; San Jose et al., 2011 ).

In 2002, Conforth mentioned that the literature on this mode of governance was under-theorised. In 2022, this observation remains valid. Recent literature focuses on the disciplinary dimension of governance using almost exclusively the filter of agency theory: comparison of governance modes as a function of ownership rights (Groeneveld and Llewellyn, 2012), board composition and performance of Italian cooperative banks (Bussoli et al, 2015), managerial discipline in Japanese cooperative banks (Yamori et al., 2017), director training and managerial oversight (Ahmed, 2015; d'Amato and Gallo, 2019), board diversity and risk taking (Menicucci and Paolucci, 2021). This work is part of a broader movement to study bank governance mechanisms, which has received more attention following the 2008 financial crisis (Roy et al., 2021).

Because of dual objectives, agency theory in the narrow sense seems insufficient to understand the functioning of these organisations. The strong cultural dimension (role of cooperative

values), the territorial proximity and the mobilisation of networks of local actors (Groeneveld and De Vries, 2009), the dilution of property rights (Chaddad and Cook, 2004), and the hybrid character of these organisations (Chaddad, 2012) call for a complementary reading of governance mechanisms. In this case, the cognitive dimension is privileged. The "inverted pyramid" organisational mode and the presence of dual objectives imply that cognitive costs are as important to study as agency costs. The cognitive dimension of governance consists in considering the firm as a repertoire of knowledge. The success of the firm is not only to maximise its profit but to mobilise its resources and skills to adapt. The dimensions related to organisational learning (Prahalad, 1994) are highlighted.

In practice, the members, who are at the base of the pyramid, do not elect their representatives for their skills or their knowledge of the banking world. The resulting political organisation requires discussions and debates with the managers (Fonteyne, 2007). Recent developments in corporate governance finally invite us to consider managers in a more positive light (Seal, 2006). They are creators of value, through the skills and vision they bring. They should no longer be viewed exclusively from the perspective of optimistic, egotistical behaviour that should be constrained.

How are these discussions and debates organised in cooperative banks? How are the elected representatives of the customers involved? How are the interactions between the management team and the elected members of local banks organised? These questions remain largely unanswered in the existing literature.

The cooperative mode of governance emphasises the involvement of elected members and the role they play in the success of the retail bank (Bruno and Iacoviello, 2020), yet, little is known about this. One may, therefore, wonder how elected members, especially those who are far from the decision-making centres, can play such a role. Although they are members of the board of directors (BoD) of their local bank, they cannot influence the actions of the managers at this level (Richez-Battesti, 2006).

The research question is then the following: What are the interactions at work in the governance of mutual banks?

To answer this question, we draw on the work of Simons (1991, 1995, 2005) and we are particularly interested in the interactive dimension of control. Tessier and Otley (2012) highlight the lack of consensus on the definition of interactions. Ferrara and Otley (2009) propose a broad version of the concept. It is a question of considering, on the one hand, the way

in which managers make intensive use of all forms of control in organisations and, on the other hand, the way in which strategy is pursued through the control system.

The interactive dimension of control is likely to provide a relevant framework for analysing the way in which elected members participate in their bank's activities. This choice is an extension of Seal's work (2006), which highlights the value of using management control tools in internal governance mechanisms.

This approach should also allow us to draw a parallel between the forms of governance and the control levers used, as suggested by Bouquin (2006).

The objective of this article is threefold: to analyse whether there is a coherence, a continuum between forms of governance and control levers, to shed light on manager-director interactions outside the traditional framework of the board and agency theory, and to analyse the opportunities and challenges of such coordination.

This study shows how the managers and directors of a cooperative bank interact and contribute to the development of their institution outside the narrow circle of the board of directors. The cognitive dimension of governance complements the strictly disciplinary dimension, as the interactions between managers and directors allow for the alignment of objectives that may seem distant from each other.

It shows how the use of control tools is consistent with the modalities of cooperative governance. The aim is to illustrate the cooperative dimension of governance.

The study, which is based on an examination of the business planning process, illustrates the dimensions of organisational learning in action around management control tools.

To achieve these objectives, we use an in-depth case study with data triangulation as defined by Modell (2005, 2009, 2010).

The results show that the strategic process is an integral part of the internal mechanisms of governance through an original tension of the three levers of control (diagnostic, interactive and beliefs system) with which the elected members are associated. The interactive dimension is prominent and leads to a genuine organisational learning process involving the managers but especially the elected members. These initial results support the idea that there is coherence between the control levers used and the form of governance.

The results show that mutualist values did not play a major role in the strategic choices made at that time, but that they underpin the activity of elected members.

The article is structured as follows. The first part is devoted to the literature and the specificities of cooperative banks. A second part highlights the relevance of applying Simons' framework to

the analysis of cognitive or learning governance. The third part is devoted to the case study. Part four is the discussion and implications.

## **1. The cooperative bank context**

The European Association of Cooperative Banks proposes the following definition (EACB, 2005): *'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'*.

Cooperative banks are mainly involved in traditional banking activities (deposit taking, credit agreements), they seek economic profitability in order to continue to serve the interests of their customers/owners (San Barbu and Vintilla, 2007; José et al., 2011; Caldarelli et al., 2016, D'Amato and Gallo, 2017). Customers can be both depositors and borrowers, or they can be only depositors, not all of them hold shares. Profit maximisation is therefore not sought for its own sake. Profits are used to support the local economy, small and medium-sized enterprises (Tarantola, 2009).

Even if, overall, they have significant own resources (Groenveld and De Vries, 2009), they are facing major changes in the banking sector: fintech, remote banking, and the end of the lending monopoly in France.

Cooperative banks are owned by their customers through the "one man, one vote" principle. *"credit cooperative banks are effectively held and controlled by their local customers through the membership concept. Cooperative banks are owned by their members, who are private citizens and individual entrepreneurs who have stakes in the bank"* Caldarelli (2020). This voting right is personal and non-transferable (Caldarelli, 2016; D'Amato and Gallo, 2017). It is essentially manifested through the election of representatives on the inverted pyramid model (Bruno and Iacoviello ,2020). Due to the high dispersion of property rights and their non-transferability, it is not possible to take control of such an entity (Chaddad and Cook, 2004; Cornforth, 2004).

Banks in the mutual and cooperative sector are characterised by a grouping of local banks presided over by a network leader often assisted by a union chamber (Banques Populaires, Crédit Mutuel). The network leader represents the group before the regulatory authorities and exercises supervisory power<sup>1</sup> over local or regional banks (Gurtner et al., 2002; Di Salvo, 2002).

The regional banks have a large degree of autonomy in terms of commercial and financial policy and risk-taking. The managers and board members of these banks own and control the network leader. They do not, however, constitute the basic level of governance found at the level of local banks. A local bank is in fact a bank branch (more rarely a group of branches) run by a salaried manager assisted by a board of directors and sometimes a supervisory board (SB) - and whose capital is held by the members. These two boards are chaired by two directors elected by the boards: the Chairman of the Board of Directors (CoB) and the Chairman of the Supervisory Board (CoSB). The members of the boards are elected by the customer members at the Annual General Meetings.

While they do not have significant discretionary power, their political role is crucial. When the network leader makes a significant change in financing methods (e.g. creation of subordinated securities), the approval of the local banks is essential. The place and function of the members in the production activity, in the internal organisation of the banks and also in the strategic choices made, however, remains questionable (Richez-Battesti, 2006). Organisations tend to seek consensus (Gianfaldoni and Richez Battesti, 2007). The different stakeholders agree on a number of values (equality, solidarity, freedom and responsibility) and on a democratic management model (non-profit, free membership and participation).

It is in this context that the real contribution of members and directors may be worth considering.

One of the foundations of the internal organisation of cooperative banks is the decentralisation of governance, and this plays a key role in the resources available for adapting to the economic environment.

In this context, the directors (elected to the banks' boards) have a particular role to play: they contribute to commercial development, as purveyors of business. Several studies show that the commitment of these directors is very stable (Panetta, 2005; Bongini and Ferri, 2008). Elected members often belong to other association or professional networks (Gianfaldoni, 200;

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<sup>1</sup> This authority is primarily concerned with compliance with regulatory requirements for risk management and financial soundness.

Groeneveld and De Vries, 2009). They are chosen because they belong to these networks but also because they share a certain number of values close to those of the cooperative banks. Finally, they must collectively be representative of the local economic fabric from which they come (Caldarelli, 2016).

However, the organisational learning that results from this is not clearly explained. The above description seems to indicate that this is a case of managing accumulated experience (Koenig, 1997). In this framework, elected members and employees learn in the relatively stabilised context of retail banking operations. If incidents occur, activities are not challenged but improved (Marsal and Travaillé, 2007).

From these developments, it appears that the cognitive contributions of members and directors lie essentially in two main areas: the preservation of strong values and the use of their knowledge of the local economic and social fabric. In the first case, the culture and values of the bank should align the visions of the managers and directors, with the need for the managers to act in line with these values. In the second case, the local expertise of the directors complements the expertise of the group managers, who then specialise in conducting strategy at national or international level.

From these studies, it appears that the question of how elected members contribute concretely to the success of the firm is not addressed. Maurel (2008) in the study of management control in the Sociétés Coopératives de Production (SCOP) shows that the tools and information generated are available at all levels of the organisation. Ory et al (2006) show that banks in the cooperative and mutualist sector have erased their specificities to bring their management style closer to that of capital banks. Maurel (2008) identifies a similar convergence between the management control of cooperative production companies and SMEs.

This issue is not studied in the case of cooperative banks. In fact, the pyramidal organisation of cooperative banks is inherent to the problem of coordinating its members, especially in large banking groups. This aspect is underlined by Di Salvo (2002) when he mentions the risks of divergence of interests, in the long term, between the different "strata" of the pyramid. Desrocher and Fisher (2005) make a similar point. They identify possible interference between 'grassroots' elected members and managers, which can affect the coherence and stability of groups.

In this context, the analysis of the performance appraisal system can provide relevant answers. The system supports strategic decisions, planning and control mechanisms. It provides a common language for stakeholders dispersed throughout the organisation (Busco et al., 2008). It allows the maintenance of local specificities through appropriate forms of coordination and

standardisation. It is also a source of organisational learning (Busco et al., 2006; Burns and Scapens, 2000). We will now look at the extent to which this performance management system can be integrated into the systems of governance.

## **2. Control levers and cognitive governance**

Several research studies highlight the role of the performance appraisal system in cooperative banks' management of banking risks (Ahrens and Chapman, 2007; Busco et al., 2006; Otley and Berry, 1994; Scapens, 1990). The board of directors, in its role of defending both depositors and borrowers, has a supervisory but also an advisory role vis-à-vis the managers. (D'Amato and Gallo, 2020). Llewellyn (2007) shows that the management of financial institutions is characterised by a complex and non-transparent management. This is due to the characteristics of financial products and the relational nature of the business model based on long-term contracts. This makes it difficult for the customer to control such relationships and decide to leave. In cooperative banks, this control is devolved to the elected members. It takes on an interactive dimension in the sense that it concerns multiple actors with different profiles (elected members, managers, employees). It intervenes in the prevention of risks but also in the detection of emerging strategies (Mikes, 2009). From this research, it is clear that mobilising actors around the performance appraisal system can provide insights into how directors exercise control and contribute to the success of financial institutions.

Thus, it should be possible to draw a parallel between forms of governance and the use of control levers. We first introduce the concept of cognitive governance, then we present the control levers and how they can be included in governance mechanisms.

### **1.1. Cognitive governance, strategic uncertainties and dual objectives**

Nooteboom (2002) defines governance '*[t]he term 'governance' aims to express that there are multiple interests and that the challenge is to achieve a viable and fruitful balance of interests and power'* (p.1).

In the cognitive view of governance, directors are part of the resources and skills needed for the firm to survive in the long term, as they 'enable' the implementation of new strategies, or suggest new avenues to be explored at board meetings (Charreaux 2002a, 2002b, 2002c; Wirtz, 2006). This work shows that the cognitive and disciplinary dimensions of governance are complementary. The disciplinary mechanisms coexist with the cognitive dimensions and, depending on the strategic situations of the company, these mechanisms will be more or less strongly mobilised. When it comes to exploiting existing skills, concerning codifiable knowledge, and when the shareholder base is dispersed, it is more appropriate to develop disciplinary mechanisms. In this case, there is a higher probability of managerial agency conflicts<sup>2</sup>. On the other hand, when it comes to exploring new opportunities, with new skills, when knowledge is tacit, it is more appropriate to develop cognitive mechanisms (Wirtz, 2006). This "flip-flop" movement is explained by the existence of "potentially high" cognitive costs<sup>3</sup> that make shareholder buy-in more problematic.

The introduction of the cognitive dimension highlights the concepts of knowledge and learning from an evolutionary perspective (Nelson and Winter, 1982).

For our purposes, we will use knowledge as an interpretation of information by individuals (Fransman, 1994, 1998). From this perspective, information is collected, processed and interpreted and there is a real organisational learning within the firm. This learning starts with the interactions between the board and the manager and can also develop within the firm. In this context, the manager is no longer seen as a potentially value-destroying agent, but as an agent who sets up routines and procedures that allow the organisation to adapt to its environment (Seal, 2006).

Organisational learning, which concerns both the acquisition of individual skills and the development of collective skills, is the subject of many currents of thought and sometimes heated debate (Koenig, 1997). We shall retain from this debate the existence of two main types of learning. (March, 1991). The first concerns the exploitation of existing knowledge and skills (or internal resources), within the framework of relatively stabilised systems, while the second develops the exploration of new opportunities (or external resources) in a more complex and turbulent environment. In the first case, learning is focused on experience management. With the objectives defined, the learning that takes place is 'only' about gap analysis, the reactions of the market to what was planned. We are essentially in a single learning loop, because the

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<sup>2</sup> This is a summary of the table presented on page 168 in Charreaux and Wirtz (2006)

<sup>3</sup> Page 157, FCS article, June 2006.

way of looking at the environment, the strategic orientations or the use of internal skills are not modified.

In the second case, it is a question of experimenting with new internal processes or even questioning existing processes in a regenerative movement (Koenig, 1997). This is a case of double-loop learning as defined by Argyris and Schön (1978), the initial assumptions about the success of the firm are no longer the same and can change radically.

Summarising the above developments, there is a link between the governance mechanism used and the strategic paradigm in which the firm operates (P. Wirtz, page 168). ‘Disciplinary’ or shareholder governance<sup>4</sup> tends to develop when the firm exploits its existing resources and skills, whereas cognitive mechanisms will be more relevant when the company explores new resources<sup>5</sup>. The implementation of governance mechanisms will differ depending on whether managers and owners opt for a disciplinary form or a cognitive form, taking into account the imperatives of the environment.

There are few case studies showing precisely how such mechanisms work, as the interaction between directors and managers takes place exclusively within the board. There are no examples in the financial sector. In cooperative banks, directors are guarantors of certain values, they are purveyors of business (Gianfaldoni and Richez Battesti, 2007), but seem to be passive in the decision-making process (Silversten, 1996).

The cognitive dimension of governance is necessary to better understand how economic and social objectives are monitored in practice and how cooperative values are taken into account in strategic choices. The cooperative dimension of governance should be found in practices of exchange and debate as highlighted by Poon et al (2001). The occurrence of conflict during a budget or resource allocation discussion can produce positive results (more creativity, greater understanding of problems, better decision-making) Tjosvold (1990, 1991), Tjosvold et al. (2004).

The analysis of control levers offers an original approach to this issue in the context of cooperative governance.

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<sup>4</sup> The term financial governance is also used to refer to the financial markets.

## **1.2. Control levers and corporate governance**

Seal (2006) shows that the analysis of external governance mechanisms must be accompanied by the study of mechanisms incorporated into the operation of companies: internal reporting, internal control practices.

After briefly recalling the different levers identified by Simons, we will try to show how they can reflect the governance choices made by owners and managers.

### *1.2.1. The introduction of control levers to better understand the functioning of different modes of governance.*

Our research is in line with the large body of work that has identified the roles of accounting and control practices in organisational learning (Burns and Scapens, 2000; Otley and Berry, 1994; Meer-Kooistra and Vosselman, 2000; Sea et al., 2004; Bhimani and Roberts, 2004). The use of tools allows us to visualise the state of the business but also to question managerial strategies (Hopwood, 1990). Accounting and control systems improve intra-organisational communication by disseminating information with a shared financial vocabulary to a wide variety of stakeholders (Robert and Scapens, 1990).

Simons (1995) shows that there are several levers in organisations that interact with each other to varying degrees depending on the type of environment the firm faces, its hierarchical structure and the tension that managers wish to maintain between innovation and the achievement of predefined objectives.

He defines four main control levers: diagnostic control systems, boundary systems, interactive control systems and beliefs systems. Diagnostic control is a system that monitors the firm's results and corrects deviations according to pre-established performance standards. The boundary system concerns formal rules, limits and prohibitions as well as sanctions and credible threats of punishment. For our purposes and in order to better understand how elected members interact with the management of mutual banks, we focus our attention on the levers of interactive control and control by beliefs.

Simons (1995) shows that globally, in firms, three forms of tension develop and coexist: unlimited opportunities versus limited attention, deliberate versus emergent strategy, individualism versus the desire to contribute to the common good.

Indeed, it is not clear what variables determine the choice of one form of control or another. In particular, Simons (1995) states that the formal performance appraisal system can be used either

diagnostically or interactively. The difference between the two lies in the degree of personal attention that is given by the management team. Tuomela (2005) finds the same results when looking at the use of dashboards. Bisbe et al (2007) emphasise that interactive control does not exist 'on its own' but is the result of a combination of several practices. The work of Widener (2007) is in line with this.

In all cases, tensions make it possible to boost the creativity of employees but also to curb initiatives (Mundy, 2009) and behaviours that could harm the functioning of the firm. They are balanced around the four levers of control. Dynamic tensions are illustrated by interactive and value-based control, while 'brake' tensions are represented by diagnostic and boundary control. Henri (2006) focuses on the link between the control system and the skills and resources deployed to maintain the firm's competitive advantage. There must be consistency between the two. The results of his research show that the use of interactive control promotes firm capabilities, whereas diagnostic control puts negative pressure on these capabilities. His results complement Marginson's (2002) study on the activation of control levers at the middle management level and the development of new ideas.

The synthesis of this work shows that the levers are interdependent, will be 'activated' successively within the same organisation, depending on the strategic constraints of the moment, and their qualification is closely linked to the action and involvement of the managers. It is therefore possible to draw a parallel with the work on governance presented in the previous paragraph.

### *1.2.2. Control levers as an extension of modes of governance.*

To account for this extension, it is useful to distinguish between the quantitative and qualitative control systems, which makes it possible to classify the various levers. What we call the 'quantitative' system concerns the systems that enable the creation and monitoring of dashboards, i.e. in essence what is measurable (hours, time spent, number of products and services, euros, etc.). The 'qualitative' system refers to non-measurable dimensions. Diagnostic control appears to be a natural extension of financial governance: same background in terms of strategic environment, single-loop learning, management by exception, strong link between objectives and rewards<sup>6</sup>. At the same time, interactive control is an extension of cognitive governance: same context of strategic uncertainty, double-loop learning, strong involvement of

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<sup>6</sup> In the same vein, Bouquin (2007) draws a parallel between management control practices focused on short-term financial indicators and the mode of corporate governance strongly linked to the demands of financial markets.

managers. In this context, the control system supports the manager in his new choices and provides him with information to formulate new hypotheses. There is a sort of continuum between the activation of control levers and the form of governance (Table 4).

**Table 4: Form of governance and control levers**

	<b>Financial governance</b>	<b>Cognitive governance</b>
Strategic paradigm	Leveraging existing resources and skills in a relatively stable strategic environment	Exploring new resources and skills in an uncertain and turbulent strategic environment
The ‘quantitative’ control system	Formal incentive and control system: diagnostic control	Formal system influencing opportunity perception, organisational learning and cognitive coordination: interactive control
The ‘qualitative’ control system	Boundary control	Mechanisms influencing the perception of opportunities: beliefs control, boundary control

*Table based on the article by Charreaux (2002)*

It is unlikely that reality will offer a clear and definitive distinction from the typology presented in this table: Simons (1995) insists on the varying tensions between the different levers and Wirtz (2006) refers to the succession of governance modes according to environmental uncertainties. It should nevertheless be possible to highlight the interactivity at work in a cooperative bank.

Our working hypothesis consists in inferring from this typology that ‘grassroots’ elected members, if they are involved in the strategic process, must also participate in one or more dimensions of interactive control.

### **3. The case of a cooperative bank**

The network we have chosen to study is the Crédit Mutuel network, and in particular the organisation that prevails in a large Federation in Eastern France. This section is organised as follows. The first point is devoted to the presentation of the research protocol. Point two describes the strategic process, point three shows how the elected members are involved in the control levers implemented in this institution, and point four summarises the main results.

#### **3.1. The research protocol**

The Crédit Mutuel group is a banking institution that groups together several federations affiliated to a National Federation, which acts as the network leader. The commercial, organisational and financial policies differ from one Federation to another. The Federation in

which our study was carried out is divided into Regional Divisions (RDs), which are in turn divided into Districts. Each RD is headed by a Director who leads a ‘support’ team to ensure the smooth running and development of the local banks: sales, logistics, risk management, litigation, human resources management and management control. These are the ‘technical’ functions. The ‘political’ functions are carried out by the Districts and their elected Offices<sup>7</sup>. The case study concerns a District which is unique in that it covers the entire territory of a RD. The district has 270,488 customer members, 695 elected volunteers (120 chairmen of the board of directors and supervisory board and 575 directors), 556 employees, 60 local banks for 96 branches. The local banks are grouped by sector, there are 7 sectors in the District.

The research protocol is based on a qualitative and quantitative approach. Data collection takes several forms: direct interviews, study of meeting minutes, participation in meetings, and a questionnaire survey (Table 2). The Credit Mutuel group and its member Districts are deeply involved in mobilising elected members. Indeed, the proposal to carry out a study of internal governance mechanisms was very well received. Managers need to understand the effectiveness of the meetings organised to federate the stakeholders. This collaboration should provide answers to our research questions on the one hand and measure the effectiveness of the communication efforts made by the Federation and the District on the other. Our study is primarily exploratory insofar as the in-depth study of management control tools in governance mechanisms is still not widespread. After a test phase with some twenty people, chairmen and elected members, from three different Credit Mutuel banks (urban, rural, semi-rural), the final version of the questionnaire was completed. At the end of this period, 147 questionnaires were returned of which 42 chairmen and 105 elected members. In total, 208 people took part in this survey<sup>8</sup>: 43 chairmen and 165 members. This represents a response rate of over 35% for chairmen and just over 28% for elected members. The respondents exercise their mandate in 42 banks (i.e. 70% of the District's banks). 73% of the elected members at the District Office responded to the survey. The composition of the sample shows a very good representation of elected members. 118 men and 43 women took part in the survey, i.e. a feminisation rate of 25% (compared to a little more than 26% for the District). The distribution of respondents according to the mandates held shows a good balance between the board of directors (59% of chairmen, 48% of elected members) and the supervisory board (17% of chairmen, 43% of

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<sup>7</sup> We will discuss this aspect in more detail in section 3.2

<sup>8</sup> In fact, a chairman's questionnaire was completed by the two chairmen of the same bank and 6 elected representatives' questionnaires were completed during a board of directors meeting.

elected members). Finally, respondents have been in office for an average of ten years in the case of chairmen, and a little over 11 years in the case of elected members.

**Table 5: Diversity and triangulation of data collected.**

<b>Data collection method</b>	<b>Purpose of collection</b>	<b>The data obtained</b>
Self-administered questionnaires after a test conducted with the elected members of 3 banks (17 people participated in the test)  Declarative	Collect the perceptions of elected members on the communication policy and group (cognitive governance grid)  and situate the management control tools in this context (Simons' grid)	208 respondents, i.e. a response rate of over 30% for all elected members
Interviews with managers  Semi-structured interviews	Collect the objectives pursued by the group's managers (cognitive governance grid) and situate the control practices in this context (Simons' grid)	1 interview with the President of the Crédit Mutuel group  1 interview and 1 working session with the Regional Director  1 interview and 2 working sessions with the District Chairman
Interview with a bank manager  Semi-structured interview	Gather evidence on the conduct of the strategic process (Simons' grid)	3 interviews
Interview with the management controller and mini questionnaire	Understanding the strategic process (Simons' grid)	1 informal interview plus questionnaire
Study of meeting minutes (62 meetings over 3 years)  Analysis of internal documents  Analysis of external documents (management reports, code of ethics)	Cross-reference the perceptions of elected members with the published agendas (cognitive governance grid and Simons' grid)	18 months of report analysis (62 reports)

In line with the work of Modell (2005, 2009, 2010), the data collected, in addition to being both quantitative and qualitative, will also identify both the dimensions of cognitive governance and the dimensions of control levers. When discussing our results, we will try to cross-reference these two approaches to enhance the understanding of the observed phenomenon.

Our protocol consists of three steps: description of the strategic planning context and verification of the involvement of elected members, identification of the control levers implemented in this context, and governance involvement (latitude of leaders and learning).

Table 6 illustrates precisely how the sources of information will be used.

**Table 6: Use of information sources**

<b>Control dimensions</b>	<b>The observations concerned</b>
<b>Role of elected members in interactive control</b>	The first step is to identify the forums for exchange, as recognised by the elected members, and to check that these forums are also used for meeting with the management team. The second step is to check that the dialogue established leads to regular strategic reformulations and new working hypotheses.
<b>Role of elected members in beliefs control</b>	Testimonies of local managers and elected members. These data will be completed by a careful study of all the meetings attended by the elected members (objectives, periodicity). The group's code of ethics.
<b>Role of elected members in limit control</b>	Review of agendas items
<b>Learning for management</b>	Regional Director interviews, review of agendas, role assigned to each meeting
<b>Learning for elected members</b>	Survey results, District Chairman interview, Regional Director interview

**3.2. The planning context within the District**

The original context of strategic planning is a process that closely associates the elected members and the ‘technical’ structure. It is based on the Medium to Long-Term Plan (MLP). This three-year plan is divided into four layers. There is a group plan which sets out the main strategic directions and identifies at local level the Federations with the most promising areas for development. Each Federation then prepares its own plan, broken down by Regional Divisions and Districts. The figures are then broken down into local plans that group together several banks, and then into plans for each bank. Although the strategic orientations are global, the means of achieving them differ from region to region. The ambitions and objectives may differ from one bank to another, from one region to another. In this context, it is the overall result that counts and above all the fact that each individual contributes in his or her own way to the success of the group as a whole. The Regional Director explains: “In a wine-growing region, we will try to see what, in the group's objectives, can be achieved at our level, taking

into account the strengths and weaknesses of the geographical sector, our location and our market share.”

At the same time, several types of meetings are organised within the District (Table 7). The Regional Director refers to these as political meetings because they are mainly intended for elected members.

**Table 7 The main political meetings organised in the District**

<b>Type of meeting</b>	<b>Participants</b>	<b>Periodicity</b>	<b>Purpose of the meeting</b>
<b>District Office (subdivision of Federations)</b>	15 Directors and CoB, elected members of the Office, one manager from the General Management, one manager from a subsidiary	9 per year	Crédit Mutuel's policy in the District, partnerships, training policy
<b>Sector meetings (subdivision of Districts)</b>	CoB and CoSB, District Chairman and Vice Chairman + RD	May June	Marketing of the sector, comparison of Crédit Mutuel banks, progress report on the group and the District
<b>District Correspondents</b>	Bank Directors + CoB + CoSB	Biennial	News from the sector
<b>District Plenary Meeting</b>	Representatives of all the banks (Directors, CoB, CoSB, plus one or two directors per bank), a representative of the General Management often a Deputy General Manager	Annual	The year in review
<b>Annual seminar for chairmen and directors</b>	Bank directors + CoB, CoSB a representative of the General Management often a Deputy General Manager, managers of Subsidiaries	Annual	The roadmap for the coming year, an update on the Group's current situation
<b>Meetings of the BoD and SB of the local banks</b>	Bank director, CoB and CoSB and all elected members	Monthly	Monitoring the commercial and financial activity of the Crédit Mutuel banks

*Source: Transcripts of interviews with the President of the Crédit Mutuel, Regional Director, District Chairman.*

The different meetings aim at involving the elected members, and in particular the chairmen, in the running of the District but also at harmonising the perceptions of all the stakeholders. The regional director explains: *“The bank directors attend a certain number of technical meetings, during which we take stock of the actions underway, the priorities and the points of vigilance. The meetings organised with the elected members cover the same topics. The idea is to ensure that the message is received in the same way.”* He goes on to say: *“The various meetings are organised so that everyone, i.e. the bank directors and the chairmen of the boards, hear the same thing at the same time.”* These meetings provide the basis for consultation with the elected members.

The examination of the agendas from the minutes of 62 District meetings underlines the importance of management control tools in the conduct of several meetings (Table 8).

**Table 8: Management control tools on the agenda of regional meetings**

<b>The meetings</b>	<b>Management control topics on the agenda</b>
District Office	District dashboard (savings, credit, profitability, risks) The District's MLP: progress, delays, comparison with the Federation
District Correspondents	Little developed, except for one year when the monitoring tools at bank level were explained to the elected members
Sector meeting	Group results (economic result, equity, rating) District and sector dashboard (savings, credit, profitability, risks) Comparison of commercial and financial results of the banks in the sector The District's MLP: progress, delays, comparison with the Federation
Annual Seminar for Chairmen and Directors	District dashboard (savings, credit, profitability, risks) The District's MLP
Annual General Meeting of the District	Annual reporting and group policy, mainly District accounting data, group financial data
Monthly board meetings in Crédit Mutuel banks	Bank dashboard (savings, profitability, risks), Bank budget, Follow-up on the Bank's agenda, Bank's MLP

*Data collected after analysis of meeting minutes and interviews with managers.*

At the same time, the elected chairmen and directors attend the monthly bank board meetings (boards of directors and supervisory boards) as provided for in the articles of association. In this case, the aim is to monitor the bank's commercial and financial figures, while implementing a risk prevention policy. The indicators disseminated at these meetings are highly diverse: commercial and financial indicators for the group, the Regional Division, the sector and the Crédit Mutuel banks. Comparison practices are thus systematised. In addition, other indicators complete the internal dashboards: general macroeconomic data (GDP, inflation, unemployment trends) and more detailed financial macroeconomic data (trends in short-term interest rates, long-term rates, refinancing trends, etc.).

### **The role of elected members in defining the strategic plan**

In the District under study, the process began with a diagnostic phase involving the elected members. The latter attended a workshop during the annual seminar in September designed to pinpoint the key development areas in the District. The plan was then formalised at the end of the year, for implementation at the beginning of the following year.

The testimony of the management controller further clarifies the context. In the strategic process, the head office sets the main orientations but the final objectives are decided by the Regional Director in agreement with the elected members of his or her District. In this context, the controller provides support to both the Regional Division and the District Chairman, but has no role in advising them. As to the influence of elected members on defining the MLP's objectives, the controller acknowledges that the latter play an important role. They can choose

strategic orientations that are far removed from the Federation's main priorities (preferring to focus on insurance, to the detriment of savings products, for example, because this is more in line with the sector's potential).

This serves as a basis for negotiation with the Federation to obtain more financial, human and technical resources to achieve the assigned objectives. In fact, the Federation participates in local development efforts through financial contributions granted to the Regional Division, which redistributes them to the Credit Mutual bank concerned by the development plan. Specifically, the emphasis is on partnership projects between the banks: joint commercial operations, partnerships with the local economic fabric involving several banks.

**The role of elected members in the interactive control dimension**

The aim is to identify whether the planning process includes forums for exchange, whether these forums concern the management team and the elected members, and whether these exchanges are accompanied by changes of direction in the strategic formulation of the local bank or the District. Two components emerge from the questionnaire in terms of forums for exchange: the expression of points of view and decision-making at the level of the bank. These two components are consistent with the lines of research proposed by Bouquin and Fiol (2006). The responses of the elected members give the following results.

**Table 9: Forums for exchange identified by the elected members**

Key meetings	District Office	Sector meeting	Annual Seminar for Chairmen and Directors	District Plenary Meeting
To make decisions at your local bank	72,7 %	47,6%	24,4%	13,2%
To express your point of view	72,7 %	64,3%	39%	23,7%

*The % refers to the responses obtained in % of respondents.*

The survey shows that the elected members identify several forums for exchange. The District Chairman confirms this: *“I would like to see forums for debate, I want to know everyone's impressions and concerns so that I can respond to them. The idea is to be able to pass on information to the Federation as well.”* Senior managers (CEOs) are used to travelling within the Federation, but the meetings they attend are not the ones where exchanges are most important (Annual Seminar and General Meeting). Discussions and presentations focus on the annual results and the progress of the MLP. These discussions do not lead to changes in strategic orientations. Rather, they are an opportunity for the CEOs who travel to the meetings to explain

the group's policy and, ultimately, to collect the remarks and comments of the elected members during the convivial and informal part of these meetings.

The Regional Director adds: *“I am at the banks’ disposal. When a bank has difficulty meeting its objectives, I go there to understand what is going on, I meet with the elected members and we work out solutions.”*

**The role of elected members in beliefs control**

The planning we have just described concerns the retail bank and the strengthening of its territorial presence. The group's other strategic orientations are not concerned. The decision to acquire a stake, to buy a particular domestic or foreign institution, to diversify activities is not part of the district-level approach. Consequently, the need to communicate on the major strategic priorities pursued at national level is particularly important. The objectives are two-fold: to inform the elected members about developments in the group and to steer the implementation of the medium-term plan (MTP) at local level. An examination of the agendas (Table 8) shows how this constraint is articulated. In this context, the questionnaire asks participants to rank meetings according to their perceived importance in understanding the group's strategy or business environment (Table 10).

**Table 10: The role of meetings on the perception of elected members**

<b>Key meetings</b>	District Office	Sector meeting	Annual Seminar for Chairmen and Directors	District Plenary Annual General Meeting
For understanding Group strategy	72,7%	28,6 %	63,4%	57,9%
For understanding the economic and regulatory environment	54,5 %	33%	63,4%	44,7%

*The % refers to the responses obtained in % of respondents.*

Respondents rank meetings from 1 (meeting is very important) to 4 (meeting is not important). A rank of 5 is added, when processing the responses, to take into account the fact that some respondents do not rank all meetings. In the results, we thus obtain percentages of "unranked meetings". For this table, only the cumulative percentages of rank 1 and 2 are used. In response to the open question as to what more the elected members expect (in relation to the information already provided), the chairmen expect a better explanation of the group's policy. Many comments emphasised the need to have an overview of the group's policy with a focus on the economic and financial context and to improve the dissemination of this vision. They need to know *“the banking context surrounding Crédit Mutuel”* or *“a federal discourse on the group's strategy”* in order to obtain a *“thorough understanding of the group's policy”* or *“an awareness*

*of the evolution of the District and the group*". One bank Chairman emphasised, *"there is room for improvement in communicating the group's strategy to elected members and boards"*. Another added, *"these presentations are comprehensive, but sometimes there are too many figures."*

The responses obtained from the directors are in line with this. The directors insist on the need to know the purchases made by the group and the preferred axes of development in this area. The directors are looking for explanations, sometimes in very strong terms. They want to understand *"the strategic decisions and the reasons behind these decisions from the point of view of Mutualism (underlined)"*, to know *"the decisions taken in relation to the current crisis and how they were explained"*. They expect *"explained and justified decisions"* and *"an explanation of the choices made"*. They want to know more about the positioning of the Crédit Mutuel group in the banking sector, where elected members perceive major upheavals, and they want to know *"the scale of Crédit Mutuel in France and in Europe compared with competitors"*, *"the group's strengths and weaknesses"*. They seek to gain a better understanding of the coherence of the choices made with the history of the group (cited twice) or with mutual values (emphasised).

Other items concern the group's longer-term vision with particular emphasis on its projects, outlook, forecasts and objectives.

In this respect, the President of the Federation refers to the control of mutualist values by elected members.

Observation of practices and interviews have shown that the elected members are very active in the internal control of the institution.

### **The role of elected members in internal control**

The articles of association provide that elected members and employees have a duty of "good management". They must therefore *"act with discernment in order to preserve the quality of the assets of the entity they manage"*. The survey carried out among the District's elected members confirms this point: *"the members expect us to ensure that the bank is well managed in the collective interest of the institution's members"*. More than 87% of the elected members consider that they play an important role in internal control. The elected members have no influence on the definition or modification of the delegate scheme. This scheme concerns the scope of the powers granted to employees (bank managers and account managers) with regard to loan agreements. It depends on technical criteria imposed by banking regulations (customer

rating, outstanding loans based on this rating). Every month, the elected members validate the loan agreements made by the managers and periodically the members of the supervisory boards ensure that the internal procedures are being respected.

### 3.4. Summary tables of results

It is possible to summarise these results in the form of synthetic tables like those presented by Simons (1995) at the end of his book. The discussion then turns to the comments and analyses that can be drawn from these tables.

**Table 11: Involvement of elected members in interactive monitoring mechanisms**

	<b>Interactive control dimensions involving elected members</b>
What	Managers, middle management and elected members are regularly and extensively involved in the activities of the bank, their sector and their district. The GM's representatives participate in all District General Meetings and District Chairmen's and Directors' seminars.
Why	To focus elected members on the new challenges: telephony and competition from new players in the banking sector.
How	Discussions are meaningful and regular. There are debates. No change in working assumptions during the period observed. Discussions are more about operational or tactical decisions.
When	The strategic uncertainties are high, particularly with regard to the group's diversification, and the importance of mastering the technological dimension. The Deputy CEOs visit each District at least twice a year. The Federation studied has 18 Districts.
Impact on managers	No radically different strategy emerges at local level that would constrain the manager's action or guide his or her choices. During the financial crisis, managers travel more often to the Districts.
Learning for managers	The feedback from the meetings is a good indicator of the general business climate at the local level and the impact of the distribution of new products or services. From this feedback, there is a double-loop learning opportunity.
Learning for elected members	Elected members improve their knowledge of the group's economic and financial environment. This can change their own representations; double-loop learning.

A summary of the dimensions related to beliefs can also be made.

**Table 12: The role of elected members in beliefs control mechanisms**

The dimensions	<b>Dimensions with which elected members are involved in the control of beliefs</b>
What	The group's values are present in the management reports: solidarity, responsibility and freedom. Long-term performance is preferable to short-term gains The democratic mode of governance.
Why	Values, beliefs are the axes of strategic differentiation
How	Crédit Mutuel's commitments, which can be found in the preamble to the code of ethics for elected members (institutional website). The reference to values in the management report

When	There are many opportunities for growth and they are moving away from the retail banking business. These values fuel discussions in meetings with elected members. This is particularly the case when a bank that offers consumer credit is acquired.
Impact on managers	They have to share their vision and ensure that strategic choices are in line with their stated values. Observations show that if some elected members are reluctant, there is no impact on the managers' room for manoeuvre. Elected members can intervene to sanction a manager who does not defend mutualist values.
Learning for managers	The discussions and issues reported back to the Federation make it possible to "test" the strength of the values defended by the elected members and to know how the elected members envisage their practical implementation. Single-loop learning but potential for double-loop learning. Possible deviations observed locally by elected members. Single loop.
Learning for elected members	They can gauge the degree of involvement of managers in defending the stated values. Single loop.

### 3. Discussion and implications

#### 3.1. The interactive dimensions of the governance observed: the elected member interacting with several actors.

The analysis of this case provides a first illustration of the possible coherence that exists between the form of governance and the activation of control levers. In this study, the cognitive components of governance are strongly associated with interactive devices. Our study illustrates the strategic process rather than strategic choices per se. It highlights routines and practical activities in regular interactions. These interactions are based on existing knowledge and cognitive typologies in line with the work of Seal (2006).

##### Interactivity of elected members:

The performance appraisal system provides a forum where formal and informal controls are combined. The first measure of this interactivity is the frequency with which the Federation's management team meets with elected members. The analysis of the political meetings shows that there is a representative of the General Management at each District General Meeting and at each seminar of Chairmen and Directors. These two meetings are annual, there are 18 Districts in the Federation studied, which gives a frequency of 36 meetings per year.

##### Interactivity between middle managers and elected members:

The Regional Director or one of his or her representatives is present at all the meetings organised at the level of a District, i.e. about 15 meetings per year, when he or she coordinates several Districts, the number of meetings in which he or she participates is multiplied accordingly.

If we consider interactivity in terms of the frequency of involvement of the management team<sup>9</sup>, in line with the work of Simons (1995), the data collected show that this involvement is significant. Discussions take place during the convivial and informal part of these meetings. The debates and exchanges focus on diversification and new products in a more uncertain strategic context. There is real interaction, as the management team solicits remarks and comments from the elected members. The latter play a sort of information monitoring role. However, the debates do not explicitly lead to the reformulation of the current strategy or to the questioning of the choices made. They focus on the new products and services proposed and the new partnerships, which is consistent with Simons' observations. The performance appraisal system opens up forums where the formal and informal dimensions of control are combined, building on the work of Busco et al (2008).

#### Interactivity between the bank Directors and Chairmen:

The analysis of the verbatim reports (Appendix 1) also shows a high degree of interactivity between elected members and local bank managers. There is no hierarchical relationship between the agents and the exchanges take place in a context of considerable mutual trust. These exchanges illustrate the role of social lateral relations in the sense of Meers Kooistra and Scapens (2008) in the coordination of the District.

#### Interactivity between elected members:

Exchanges between elected members allow the banks to understand where they stand in relation to each other. The discussions do not lead to strategic reformulations and the decisions are tactical or operational. This is horizontal interactivity in the sense of Renaud (2010)

#### **Implications for Simons' analysis grid**

Our study highlights the role of a new stakeholder in the implementation of control levers: the elected representatives of the members. The elected members contribute a great deal to internal discussions and debates, not as a force for strategic proposals, but rather as relays for the

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<sup>9</sup> Considered as a whole (middle and senior management)

public's reactions to the innovations in products and services offered by the bank. This contributes to the work of Renaud (2009, 2010, 2011) who highlighted the multidimensional nature of interactivity. The observed pattern shows an internal, vertical and horizontal interactivity with the same group of actors (the elected members), which is novel. The question that then arises is to measure the intensity of this interactivity. Initial observations suggest that the degree of interactivity is greater when it concerns elected members and managers close to the field.

### **Implications for the cognitive governance analysis grid**

The management team pursues a deliberate two-pronged strategy. A strategy at group level, led by the Federation's management team, which sets the direction for the retail bank and seizes external growth opportunities when they arise (partnerships, takeovers of other credit institutions). Meanwhile, a grassroots strategy is deployed in the regions mobilising the local expertise of elected members and employees. This division is in line with the strategic axes described in the management reports (Appendix 2).

The novelty is that the mechanisms put in place simultaneously facilitate discussion and the specialisation (local versus national and international) of skills. These methods illustrate a form of routinisation of the strategic process as described by Seal (2006). Similarly, the regular interactions that we have highlighted promote the integration of actors through the sharing of common practices (Gond et al., 2012).

### **4.2. Mutualist governance as a control lever**

Our study illustrates a forgotten dimension in the study of performance appraisal systems which is today still studied from an exclusively financial perspective (Nixon and Jones (2012)). The results show that the analysis of financial data is a pretext to trigger discussions and exchanges in the informal part of the meetings.

Careful examination of the meetings attended by the elected members, analysis of the testimonies and the survey allow us to draw a specific connection between the different control levers at work in this institution. The tension between beliefs control and attenuated forms of diagnostic and interactive control results in coherence. This tension illustrates the necessary convergence between the integration of the District into the global policy of the banking group and the necessary flexibility that remains associated with local room for manoeuvre, illustrating the work of Busco (2008).

Beliefs control is important. This is reflected in the efforts of the management team to explain its strategic choices, but also its desire to remain close to the concerns of elected representatives

and members. This is illustrated by the President of the Federation, who pleads for the need to maintain “*group cohesion*”. This control is based on a strong culture of mutualism which limits the managers’ room for manoeuvre, illustrating the spontaneous mechanisms of cognitive governance as described by Charreaux in 2002.

Elected members are involved in diagnostic control when it comes to determining local business objectives, understanding deviations and correcting them, within the relatively stabilised environment of retail banking. However, this association is incomplete if we consider their limited weight in the sanction system set up at middle management level.

The results provide a further illustration of the work of Simons (1995), Mundy (2009) and Widener (2007) regarding the coexistence of several control levers in firms. In line with the work of Simons (1995) and Tuomela (2005), the tools can be used both in the context of interactive control and diagnostic control, as in the case of the MLP monitoring dashboards. Depending on the case, whether it is to manage the commercial activity or to focus on new products, the MLP will be used either in the framework of a diagnostic control or in the case of an interactive control.

### **Implications for Simons' analysis grid**

In the context of this institution, beliefs (illustrated in our case by mutualist values) play a dual role. They stimulate the search for new opportunities, but they are also potential obstacles as defined by Simons (1995).

In the first case, mutualist values will guide the choice of local partnerships: operations linked to culture, youth, aid to associations (disabled children, fight against illiteracy, etc.).

In the second case, the obstacles appear when the elected members ask for more precise justifications for the choices made, when they want to find meaning in the strategy put in place (in particular during the takeover of Cofidis).

### **Implications for the cognitive governance analysis grid**

Ultimately, our study did not highlight the role of beliefs as a real governance mechanism (in the sense of limiting the latitude of managers). The mutualist values displayed by the managers and defended by the elected members did not prevent the acquisition of Cofidis for example. The managers justify the acquisitions by the need to respond to the recommendations of the rating agencies. Our study did not reveal any cases in which mutualist values limited the power of managers. The contribution of our work consists in showing that, although mutualist values are an essential cement for group cohesion, they disappear when financial and economic constraints are strong (as was the case during our observation period).

### **Points of convergence of the two theoretical grids**

The two analysis grids converge to illustrate that, over the period observed, the national and international strategic choices made by managers do not really take mutualist values into account.

### **Areas of complementarity between the two theoretical grids**

However, mutualist beliefs and values are present and used at local level to discipline the behaviour of employees or middle managers. The power of sanction of elected members exists, and the anecdotes noted confirm the presence of this type of control (failure to respect certain values).

### **4.3. An illustration of organisational learning in cognitive governance through the 'activation' of control levers.**

The theory of cognitive governance indicates that the cognitive contributions of shareholders allow for better organisational learning, which is a guarantee of long-term success for firms (Charreaux, 2002a, 2002b; Wirtz, 2006a, 2006b; Busco et al. 2006; Batac and Carassus, 2008). The existing literature places the BoD at the heart of the process. Our study has highlighted the existence of other 'forums' for exchange which contribute to the learning experience of managers and elected members during the strategic process. These results are in line with the work of Seal (2006) who mentions a tension between routines and innovation during the strategic process, Busco (2008) who mentions the development of shared knowledge, or Teessier and Otley (2012) who mention the role of the performance appraisal system in problem solving.

### **Implications for Simons' analysis grid**

There is a real learning curve for managers when implementing interactive monitoring. The data collected allows them to react quickly to market responses when a new product is offered to customers (mobile phones). The elected members are chosen because they represent the socio-economic fabric of their territory, and their reactions and questions reflect market expectations. In this sense, their participation allows managers to learn both in a single loop and in a double loop.

For their part, the elected members benefit from all the measures implemented and acknowledge that they also learn: "*the meetings help us understand*", "*the themes contribute*

*to our training”, “our skills are enhanced by this information”, “our skills at local level are underpinned by a more global vision”.*

This learning takes place when elected members are involved in a lesser form of interactive control, and are heavily involved in the internal control of their bank. This learning stems from management’s efforts (relayed by the branch managers) to explain their policy and local comparison practices.

### **Implications for the cognitive governance analysis grid**

Our study highlights the socialisation practices of elected members. Managers make great efforts to limit the cognitive biases induced by the profile of elected members (who are not very familiar with the constraints of the banking sector). In our case, the efforts are rewarded because the strategic choices made have not been questioned and the membership of this institution has continued to grow.

The use of control tools with the active participation of elected members is likely to strengthen the relationship of trust between stakeholders, in line with the work of Seal and Jones, 1997.

### **Points of convergence of the two theoretical grids**

There is a genuine organisational learning process within the institution, involving elected members, employees and managers. This system appears to be difficult to reproduce and constitutes a genuine asset specific to this institution as defined by Barney (1991).

## **4.4. Elected members complement the internal supervision work of the managers**

The strategic planning process as described in this case cannot be said to limit managers' room for manoeuvre. The elected members determine local objectives within the framework of the major strategic orientations decided at group level. They do not question these broad strategic orientations, they simply adapt them to the local context.

However, the governance model implemented in this institution is original. It combines both financial and cognitive governance aspects. For the retail banking part of the business, where diagnostic control is more developed, the elected members are aware of the need for profitability (the management reports mention the rating agencies every year). When the elected members pursue the objectives of their local bank, they act as an additional level of supervision for the bank’s employees. In this sense, their action frees up the focus of the management team

(as defined by Simons, 1995). This aspect is reinforced by the participation of elected members in the internal control process.

This interplay between disciplinary and cognitive dimensions seems to indicate that, far from a shift from one to the other, it is possible to observe a hybrid 'mutualist' governance.

#### **4.5. Managerial contributions linked to the coordination of middle managers, employees and elected members.**

Poon et al (2001) point out that research on participatory budgets focuses more on individuals than on groups of individuals. Participation in the budgeting process legitimises the business objectives to be achieved. In their literature review, Poon et al (2001) show that in the case of participatory budgeting, the objectives are often exceeded.

##### **Elected members are a specific asset**

Our study illustrates the different resources that elected members make available to their bank. They are not only purveyors of business, they also relay the reactions of the economic environment allowing a greater reactivity.

As guarantors of internal control procedures, they provide considerable support to the existing supervisory work. The mobilisation of elected members is a resource that cannot be replaced or substituted. It is a strong axis of strategic differentiation.

In line with the work of Nixon and Jones (2012) we note that strategy is not always predetermined and can be emergent for stakeholders. The process described shows that elected members use their local knowledge to respond to the broad directions given by the group. These results are in line with previous work by Van Der Meers and Scapens (2008).

##### **Opportunities arising from mobilisation**

The knowledge of elected members enables managers to better understand the reactions of the environment and to be more reactive.

The role assigned to elected members (through internal control), their active participation in the local community and the information they receive all serve to obtain their support, which is useful for ratifying large-scale strategic choices and, above all, for guaranteeing the bank's long-term financing (by maintaining a high rate of membership).

### **Constraints of the mobilisation of elected members**

The organisation in place is complex and sometimes cumbersome to manage, and communication problems need to be constantly reassessed. Finally, the coordination highlighted above reveals the muted role of mutualist values. It can be delicate, in the long term, to display values that are not always reflected in the strategic choices made.

### **Conclusion**

Cognitive governance makes it possible to account for mechanisms that limit managers' room for manoeuvre outside the strictly disciplinary aspects usually studied. One way of understanding these mechanisms more precisely was to look at the strategic process of a mutual bank. The choice of such an institution was based on several considerations: little is known about bank governance, few articles have been written on bank management control practices, and the link between governance and the control system has not yet been explored. At issue was how local elected members could genuinely interact with the institution's management.

Our literature review first determined that there could be coherence between the activation of control levers and forms of governance. Disciplinary governance being more closely associated with diagnostic control and cognitive governance with interactive control.

The governance of mutual banks is largely characterised by the cognitive dimension, due to its inverted pyramid organisation.

The main results show a strong interactive dimension of the governance observed, but also the close involvement of elected members in the deployment of two other control levers, namely beliefs and diagnostic control.

The involvement of elected members in the management and activities of the region subsequently improves the knowledge of the management team: knowledge of local specificities, greater understanding of market reactions to new products, knowledge of the possible deviations of middle managers, strong defence of mutual values. This is both single-loop and double-loop learning.

Finally, the results show that the elected members benefit greatly from their involvement insofar as they learn about the banking and financial sector. This knowledge is all the more important as some of them actively participate in internal control activities, which is novel.

The mode of governance that emerges from this observation is original because it closely combines disciplinary aspects (the elected members, by participating in the strategic process,

can ultimately oversee the managers) and cognitive aspects (organisational learning), highlighting a hybrid form of 'mutualist' governance.

We have uncovered an original form of organisation, is it present in other mutual banks? Can we outline a 'mutualist' governance that differs from the prevailing governance model? Is there still a link between the form of governance and the internal configuration of control levers? These questions will be the subject of our future research agenda.

## **Appendices**

### **Appendix 1**

#### **Learning for elected officials (excerpt from verbatim)**

- *The information given and received is important and useful for understanding the evolution of the district and the CM-CIC group and for providing answers to any questions from members or others.*
- *In my opinion, the most interesting meeting by far is the Chairman's seminar, which provides original, high-quality information on the group's policy, situation and projects.*
- *All the topics discussed are interesting and contribute to our training. Our skills are of direct benefit to the members through the system of internal operations.*
- *As the monthly board meetings are the link between the work of the administrative staff and the members, it is important to have an overall view and to be able to present and respond to the members' grievances.*
- *It is our responsibility to talk about the economic environment of our sector and to convey any related problems to the group. The group cannot be aware of everything, we elected members have to be a technology watch.*

#### **Horizontal interactivity (excerpt from verbatim)**

- *The meeting is an opportunity to take stock of the General Meetings and to exchange experiences.*
- *Operating procedures of other banks' boards; priorities of the RD.*
- *Economic development of the sector; development strategies, bank initiatives.*
- *Economic news, group strategy, problems encountered by the sector's banks.*
- *Actions in the field by the various banks.*
- *Bank management, quality of commission follow-up, strengths and weaknesses of Crédit Mutuel in the sector.*

### **Appendix 2: The group's commitments and the code of ethics for elected members.**

Crédit Mutuel's commitments are mentioned in the preamble of the code of ethics (extract of the code published on the institutional website).

- Encourage member participation in the activities and statutory life of their local bank
- Build strong and lasting relationships with its members and customers based on mutual trust, transparency and respect for mutual commitments
- Listen to them, advise them, help them with their projects and difficulties
- Offer them quality products and services
- Contribute to local development and employment by encouraging savings and putting it at the service of the local and regional economy

- Contribute to improving the quality of life, to resolving social problems and to sustainable development

The rules of good conduct underline the following duties: respect for values and texts, respect for the individual, duty of good management, duty of confidentiality, duty of discretion, voluntary work and independence of elected members, duty of training, conflicts of interest.

### **Appendix 3:** Strategic directions identified in 2005-2009 management reports

“Focused on retail banking, bancassurance and technological *leadership*, the group's strategy is one of sustainable and profitable development, with performances recognised by the rating agencies”. “A sustainable development free from the search for short-term profitability sought by listed companies”. 2007 Report

“Its values of responsibility, solidarity and social commitment are just as strategic as the competitiveness of its services. The employees, under the control of the elected members and in partnership with them, make the strategic choices of the company and ensure its development. Employment is not an adjustment variable but a strategic objective.” 2005 Report

“Our strategy is one of controlled development based on local banking, bancassurance and technological *leadership*. As a local bank, the group combines the strengths of Crédit Mutuel, a cooperative and mutual bank with strong regional and local roots, with those of CIC, a commercial bank.” 2009 Report.

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