Co-operatives, credit unions and principles: a post 2008 critique

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Abstract

This thesis examines the adherence of credit unions to their co-operative principles. Noting the financial crisis of 2008 and the calls for change to a more ethical, transparent and fairer financial industry co-operatives appear to be a plausible way forward. The analysis of the corporate governance of co-operatives indicates that they are founded on co-operative principles, the cornerstone being the active participation by its members. The study of the previous literature demonstrates instances where co-operatives did not adhere to their principles as well as instances where members were not very active. Credit unions in Cyprus were selected as the specific co-operative industry and geographic location for the collection of data; one of the reasons being that in March 2013, six months prior to the first collection of data, Cyprus suffered a second financial crisis, giving the opportunity to investigate these two issues in a time of scrutiny and pressure. Structured interviews with thirty credit union employees, documents (statistics) from the ex-supervisory body and three focus groups with thirty members (in total) were carried out. The findings show that credit unions do not seem to adhere to their principles and members do not seem to be actively involved with their credit unions. As the warning bells for their long-term survival may have already sounded, credit unions must encourage their members to get involved, rebuild their trust amongst them, among membership and the society in general, provide co-operative-related training and restrict the involvement of the political parties. Finally, ways must be found so that credit unions remain closely involved with the societies they serve. To this extent, Service-Dominant Logic is proposed as a possible way in assisting credit unions to re-focus on their membership.

Keywords:
Co-operatives, credit unions, co-operative principles, member involvement/participation, corporate governance, Service-Dominant Logic.

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Author's declaration

"I declare that, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution."

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List of Abbreviations

AGM	Annual General Meeting
CSSDA	Co-operative Societies Supervision and Development Agency
S-D Logic	Service-Dominant Logic

Chapter 1: Setting the scene

1.1 Co-operatives

"A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise".

(International Co-operative Alliance (ICA, 2011)

Co-operatives are perceived as unique in creating and fostering long-term relationships of trust with their members (Hansmann, 1988; Spear, 2000; Jones, 2001; Papageorgiou, 2004; Spear, Cornforth and Aiken, 2007; EACB, 2010; Xiang and Sumelius, 2010; Sacchetti and Tortia; 2012; Achleitner et al., 2012; Bijman et al., 2012a; 2012b; Borzaga and Galera, 2012; Ferri, 2012; Sabatini, Modena and Tortia, 2014; Ferri, Kalmi and Kerola, 2014). Moreover, co-operatives aim to improve their members' financial position and to raise their social status (Taylor, 1971; Papageorgiou, 2004; Harvey and Sykuta, 2005; Fonteyne, 2007; Alexopoulos and Goglio, 2011), e.g., by allocating capital to their members for productive uses (Cabo and Rebelo, 2015). Co-operatives seem to be capable of representing multiple and even conflicting economic or social objectives (Hogeland, 2006), but they are particularly good in instances where members' interests are homogeneous (Holmstrom, 1999). Additionally, co-operatives are good in areas that are geographically and socially segmented (Alexopoulos and Goglio, 2011) or in areas that are sporadically populated (Ferri, Kalmi and Kerola, 2014), such as the remote rural areas of India (Talwar, 2011). Overall, it can be argued that co-operatives assist in the alleviation of problems associated with poor market structure (Harte, 1997) and they allow their members negotiating power (Cuevas and Fischer, 2006). Historically, co-operatives have been created by members coming together, e.g., farmers and artisans (Fonteyne and Hardy, 2011), sometimes as was the case in Greece, supported by the small local industry and local chambers of commerce (Karafolas, 2005), to either counteract the excess bargaining power of trading partners or to combat opportunism (Cook, 1995). Through the years, co-operatives have grown around the world based on their shared principles rather than on a common legal basis and this has contributed to their variety of purpose (Shaw, 2007).

Co-operatives are distinctive organisations as they are member-controlled and owned (Harvey and Sykuta, 2005; Ferri, Kalmi and Kerola, 2014) and their members enjoy a double identity: that of owners and users (Holmstrom, 1999). Co-operatives sometimes are even identified as dual associative and entrepreneurial in nature (Shaw, 2007) and three features distinguish them from other types of organizations. Firstly, co-operatives are characterised by three principles: the user-owner principle according to which those providing finance to a co-operative are also the users of its services; secondly, the user-control principle in which case those using the services of the co-operative are also the ones controlling it; and thirdly, the user-benefits principle, where the benefits arising from the co-operative are returned to the users of the services based on their usage (Nilsson, 1996). It could be the case that the biggest advantage of co-operatives is that their value in usage is much bigger than their value in exchange, i.e. members benefit from the co-operative by using its services rather than through the appreciation of its value (Pellervo, 2000; Harvey and Sykuta, 2005; Yair and Davis, 2008). This is because, co-operatives serve their clients/owners based on personal relationships thus, minimizing the effects of information asymmetry and the agency problem (EACB, 2010; Ferri, 2012).

A second differentiating factor is that co-operatives are perceived as having two natures: economic and social (Taylor, 1971). The social element allows members to get together to achieve specific common goals and the economic element ensures that this new entity is able to accomplish their common goals, i.e. its raison d-être (Yair and Davis, 2008). In other words, the not-for-profit nature of the co-operatives stems from the subordination of the economic element to the social element and the oxymoron is that co-operatives are too social to be included in the for-profit organisations and too economic to be considered as not-for-profit organisations (Yair and Davis, 2008).

The third differentiating factor of co-operatives is their subsidiary nature. That is, co-operatives argue that they make economic decisions on the basis of what is best for their members (Taylor, 1971, Nilsson, 1996), providing personal service to them (Hogeland, 2006). Subsidiary nature may also mean that co-operatives can be seen as an extension of their members' economic activities, as co-operatives do not have a profit motive of their own and they exist for the economic and social benefit of their members (Taylor, 1971; Papageorgiou, 2004). For example, co-operatives are able to reduce the transaction costs for their members and to build up enough critical mass for more effective bargaining (Valentinov, 2007), i.e. the economic strength of a co-operative is larger than the sum of its members' economic abilities (Papageorgiou, 2004). Based on the above analysis, it can be seen that co-operatives are very important for the well-being of their members, something however, that puts additional pressure for their effective functioning and co-operative governance.

1.2 Co-operative governance

The governance of co-operatives is so important that, Co-operatives UK issued the "Corporate Governance Handbook" (Co-operatives UK, 2010) and it is, at least, as important in co-operatives as in investor-owned-organisations (Mswaka and Aluko, 2015). Governance has been widely discussed and defined (Roe, 2004; FSA, 2007; Spear, Cornforth and Aiken, 2007; Shaw, 2007; Leviten-Reid and Fairbairn, 2011; Hanisch and Muller, 2012; Bijman, Hanisch and Sangen, 2014; Mswaka and Aluko, 2015). For example, Spear, Cornforth and Aiken (2007, p.6) define governance as "the systems and processes concerned with ensuring the overall direction, supervision and accountability of an organisation". Typically, co-operative governance consists of a Members' Annual General Meeting during which the Board of Directors is elected from amongst members (Shaw, 2007).

Despite that the principles state what should be done, in practice members of a co-operative have little influence, if any, over the Board of Directors and hence cannot control the management of their co-operative (Spear, 2004b; JeanNoel and Lemzeri, 2012), or its capital (Cuevas and Fischer, 2006; Fonteyne, 2007). This lack of control can lead to managers investing large amounts of idle cash in unprofitable ventures ("free cash flow hypothesis") (Cuevas and Fischer, 2006). So, too, it can result in "empire building", i.e. creating and accumulating profits for no other reason than their managers' aggressiveness and power seeking. Even worse, the lack of members' participation leaves the door open for the misappropriation of assets by managers (Cuevas and Fischer, 2006; Fonteyne, 2007; Spear, Cornforth and Aiken, 2009; Alexopoulos and Goglio, 2011; Ferri, 2012). The situation may become even worse in cases where, e.g., due to lack of competence, instead of controlling management, the Board of Directors is effectively controlled by it (Gutiérrez, 2008). Another factor that contributes to the ineffectiveness of co-operative governance is the lack of external pressure on management, e.g., by an influential stakeholder (Bijman et al., 2012a) or by a takeover, as the restriction on voting and ownership rights eliminates this possibility (Spear, 2004b; Gutiérrez, 2008) (see also Section 2.2.1). The effectiveness of co-operative governance can be further reduced by the political aspirations, collusion, and personal agendas of the Board of Directors (Alexopoulos and Goglio, 2009; 2011) as well as their preferential treatment of stakeholders (Spear, Cornforth and Aiken, 2009). Finally, co-operative governance may be further weakened due to the involvement of political parties, e.g., in the direction and management of co-operatives (Korres, 1999; Stefancic, 2011) or even in the choice of Board of Directors (Pellervo, 2000), rendering their governance much more complex and questionable (Shaw, 2007) and the co-operatives ineffective (Kamenidis, 1991 as cited in Karafolas, 2005; Klimis, 1991 as cited in Karafolas, 2005).

In addition to the effects of lack of member control, co-operative governance also suffers from lack of research. Existing literature has been criticized for underestimating the different member pressures and demands, for oversimplifying problems and for offering solutions that are difficult to implement (Cornforth, 2002). Furthermore, much of the available literature on governance is prescriptive (Cornforth, 2002; 2004; Spear et al., 2004) and it aims, merely, to address the perceived drawbacks of governing bodies (Cornforth, 2002). More recently, it has been argued that research on the corporate governance of not-for-profit organisations (including co-operatives) is limited both with respect to the way the research has been carried out and to the way co-operative governance has been conceptualized, placing too much emphasis on the Board of Directors and ignoring the wider governance environment (Cornforth, 2012). Moreover, various studies question whether the democratic governance model (as it is adopted by co-operatives) is anyhow consistent with the open market and contemporary practices (Mswaka and Aluko, 2015). For these reasons, a number of researchers (Cornforth, 2002; 2003; 2004; 2012; Spear et al., 2004; Spear, Cornforth and Aiken, 2007; 2009; Malo and Vezina, 2004; Bataille-Chedotel and Huntzinger, 2004; Leviten-Reid and Fairbairn, 2011; Chaddad and Iliopoulos, 2013; Mswaka and Aluko, 2015; Aldashev, Marini and Verdier, 2015) claim that, even today, co-operative governance is under-researched. Specifically, Spear et al. (2004, p.5-6) argue that the empirical perspectives "relating to governance… have only been explored to a relatively small extent in the social economy", while Chaddad and Iliopoulos (2013) agree that there is lack of literature on the corporate governance of co-operatives. Along the same lines, Aldashev, Marini and Verdier (2015, p.3) claim that despite the significance of not-for-profit organisations "our knowledge of their governance, and of its' implications for their behaviour is still quite limited". So, too, Mswaka and Aluko (2015, p.57-58) maintain that there is lack of academic knowledge on the co-operative governance model: "to date, there is paucity of empirical research scrutinising how nature of social enterprise governance affects its operations". Having set out the importance of co-operative governance structure, the next section will focus on the level of co-operatives' adherence to their founding principles, which in turn will lead to the research intent.

1.3 Co-operative principles and research intent

As discussed above, the quality and the effectiveness of the co-operative governance structure depends on the active participation of members. This is due to the fact that management, as a result of members' participation, remains under control and aligned to latters' wishes. Simultaneously, active member participation acts as a pressure mechanism ensuring that co-operatives follow their founding principles. The adherence to co-operative principles leads management to focus on members' needs, reinforcing active member participation, which in turn leads to an even closer adherence of co-operatives to their founding principles. Hence, the present study examines two related areas: adherence to co-operative principles and members' participation.

1.3.1 Adherence to co-operative principles

Co-operative principles can be considered as guidelines for all types of co-operatives as, in effect, they represent the compacted wisdom of international experience (Korres, 1999). Moreover, co-operative principles represent the common characteristic of co-operatives around the world (Parnell, 1995; Korres, 1999; Co-operative Commission, 2001; Fajardo Garcia, 2012) and form the basis of the co-operatives' differentiation in relation to investor-owned organizations (Nilsson, 1996; Korres, 1999; Fajardo Garcia, 2012), rendering their implementation of paramount importance. Moreover, co-operative principles empower members to exert greater influence over decision-making (Spear, 2000), enhancing members' feeling of ownership and identification with the organization (Gray, 1998; Spear, 2000). This means that by adhering to the co-operative principles the co-operative movement can accomplish its objectives (CSSDA, 2005), it can facilitate its operations and its growth (Drossopoulou, 1989) and overcome difficult situations it is faced with (CSSDA, 2005). By embedding these principles in their operations, (Co-operative Commission, 2001) co-operatives could contribute to their members' better understanding of the co-operative culture and hence increase their willingness to remain as members (Cicognani et al., 2012). Finally, for a co-operative to succeed (Moroney et al., 2009), the co-operative principles must be communicated in a clear and simple way (Parnell, 1995) and, membership must support them (Co-operative Commission, 2001).

The present study acknowledges the importance of the practical adherence of co-operative principles, thus proposing to research this issue in greater depth especially as there are indications of the opposite, i.e. that co-operatives do not adhere to their principles. These indications may explain the lack of member engagement, e.g., Hogeland (2006) and Wilson and MacLean (2012) conclude that members use co-operatives for more self-motivated reasons than the literature proclaims, i.e. members use co-operatives as a defence mechanism in order to remain independent. More specifically, Wilson and MacLean (2012), researching mainly producer co-operatives established in rural and island areas of Scotland, found that members were not concerned about co-operative principles. According to Wilson and MacLean (2012, p.539), "the principles of co-operatives are fundamental to the founders of the co-operative but as time passes these become less visible and important". Similarly, Cabo and Rebelo (2015) found evidence that, in Portugal, the fundamental differences of co-operatives in relation to investor-owned bank are diluted over time, with level of profits becoming the most important success indicator. Additionally, Gray (1998) having researched 1,156 farmers that were members in co-operatives, found that almost half (49%) of the co-operative members did not consider that their co-operative was different from any other organisational structure. Furthermore, only 60% of the co-operative members preferred a co-operative approach rather than an individualistic approach (Gray, 1998).

Hence, it can be said that without proper adherence to co-operative principles, the distinctive nature of co-operatives is lost, members refrain from engaging in their co-operative and thus, co-operative governance becomes less effective, leading to even more member alienation. Thus, this raises questions about the adherence of "credit co-operatives to their democratic principles that characterize them" (Chaves, Soler and Sajardo, 2008, p.31). Considering the importance of co-operative principles for the long-term survival of co-operatives, the intention of the present study is to understand the perceptions with regards to the adherence of co-operatives to their founding principles.

1.3.2 Members' participation

The 2nd principle, "Democratic members' control", is the key to effective governance structure and the proper functioning of co-operatives because members' loyalty and active participation are vital for the success of co-operatives (Hakelius, 1996 cited in Bhuyan, 2007). Therefore, there is a need for a number of active stakeholders with vision and the necessary skills to effectively provide direction and lead the organisation to its growth (Jones, 1999; Alexopoulos and Goglio, 2011).

Co-operatives must find ways to keep their members involved, e.g., through encouraging members to participate and through introduction of qualified independent members on the Board of Directors (Fonteyne, 2007; Shaw, 2007; Alexopoulos and Goglio, 2011), otherwise there will be problems with their governance (Spear, Cornforth and Aiken, 2009). In general, there are many reasons behind members' lack of participation including mismanagement, fraud and opportunism (Sacchetti and Tortia, 2012) as well as the pursuit of management goals, while setting aside members' satisfaction, needs and opinions (Bhuyan, 2007). Other reasons for the disconnection of members from their co-operative include lack of alignment between management values and those of its members as well as high agency costs, i.e. the costs of monitoring and ensuring management, acts as it should (Sacchetti and Tortia, 2012). Additionally, the size of a co-operative could cause members feeling powerless to influence its decisions (Borgen, 2011; Alexopoulos and Goglio, 2011). Moreover, there are indications that as size and geographical dispersion of members increases, the common bond/linkage is lost. Thus, members start to distance themselves from the management of their co-operative, handing more power to professional management (Spear, 2004b; Chaves, Soler and Sajardo, 2008). The resulting lack of contact between members and management prevents members from properly understanding the reasoning behind the decisions of the co-operative, thus creating even more member alienation (Hakelius, 1996, cited in Bhuyan, 2007; Alexopoulos, 2004; Sacchetti and Tortia, 2012). What is more, the loss of the local character of co-operatives, due to the expansion into new areas, may also be another possible reason for members not willing to participate (Fonteyne and Hardy, 2011).

Additionally, members' lack of participation could be caused by the shorter investment horizon (horizon problem) faced by older members (Osterberg and Nilsson, 2009). The horizon problem is created where a member's benefits from an asset (future cash inflows and/or disposal value) are less than the required investment in the specific asset. Hence, members have a disincentive to invest in the co-operative or they may prefer to invest for short-term rather than long-term periods (Cook, 1995; Harte, 1997; Borgen, 2011). In such a case, members free ride, as they feel that, even though they have contributed to the increase in the net worth of their co-operative, they are not entitled to their share of this increase in value (Cook, 1995; Harte, 1997; Borgen, 2004; 2011). Osterberg and Nilsson (2009) agree with the above, as findings showed that the more satisfied members are with their transactions with the co-operative, the higher their commitment towards it.

One last reason for members' lack of participation could be that co-operatives do not provide the service that members require. This means that it is up to credit unions to find ways to attract and maintain their members by offering services and products that are of value to these members. Hence, co-operatives should offer their members new ways to co-create value and give them as many opportunities as possible to create meaningful/memorable experiences with their credit unions (Payne et al., 2009). Based on the above, Osterberg and Nilsson (2009, p.195) conclude that there is need for further research on member involvement as "such studies concern the very survival of the co-operative business model".

1.4 Structure of present thesis

Having briefly analysed the research intent in Chapter 1, the structure of the rest of the present study is as follows. In Chapter 2, the co-operatives governance system is further analysed, highlighting the challenges it faces and the factors that influence its choice (the stage in an organisation's life cycle, ways available to control management, the high number of stakeholders and the lack of market pressure). Additionally, the role and challenges faced by the Board of Directors are examined along with the various co-operative governance models that exist today, followed by an explanation of the seven co-operative principles. Finally, the commonalities among co-operatives and Service-Dominant Logic (S-D Logic) are explored, indicating the explicit link between participation of members as owner-customers and service provision within the co-operative.

In Chapter 3, the importance of the practical implementation of co-operative principles is explained, highlighting the need for more academic research. Furthermore, the research intent of the present study as well as the two research questions are explained; followed by a discussion on the contribution of the present study to the existing academic knowledge and practice.

In Chapter 4, the geographical area and the type of co-operatives to be used in the collection of data for the present study are discussed. The reasons for choosing Cyprus as the geographical location for data collection are explained, including an examination of the economy of Cyprus in relation to the financial breakdown of March 2013, as well as the importance of the co-operative sector to the local economy. Following, the calls for change in the financial industry are highlighted looking into the need for a more transparent, ethical and fairer banking sector. As financial co-operatives could represent a plausible solution to these calls, they are evaluated against investor-owned banks, their special features, their importance, their presence in the UK and their use in the collection of data for the present study.

In Chapter 5, the research approach is discussed, highlighting issues such as research paradigms, epistemology, ontology and research design. Additionally, the present study analyses the characteristics of quality of research, the process of data analysis as well as issues relating to reliability, replication and validity, including triangulation, trustworthiness, informed consent and confidentiality. Finally, the research methods used in collecting the data for the present study are discussed.

In Chapter 6, the results of each of the three research methods (structured individual interviews, documents and focus groups) are analysed in relation to the two research questions. This is done ensuring that the results of each of the three methods are kept separately from each other and from the discussion.

In Chapter 7, the results of the present research are discussed and compared to the existing literature, indicating similarities and differences in findings. Additionally, the contributions to practice as well as the possibilities for further research and the limitations of the present study are set out and explained.

1.5 Summary

In this Chapter, co-operatives were presented as distinctive organisations that are member-controlled and member-owned. Co-operatives aim at improving their members' financial position and at raising their social status, whilst contributing to the social and economic development of the surrounding community. Additionally, co-operatives are perceived as unique in creating and fostering long-term relationships of trust with their members and are created by members coming together to counteract the excess bargaining power of trading partners and to combat opportunism. It appears that the biggest advantage of co-operatives is that their members benefit by using its services; that co-operatives are perceived as having two natures: economic and social and lastly, co-operatives argue that they make economic decisions on the basis of what is best for their members.

What is more, there was an analysis of co-operative governance, which typically consists of the Annual General Meeting of members. Governance-related problems could include the fact that, in practice, members of a co-operative have little influence, if any, over the Board of Directors and hence cannot control management. Another problem identified is that the governance of co-operatives is an under-researched academic area.

In order to overcome the aforementioned problems, the present study aims to search two related areas: adherence to co-operative principles and members' participation. Possible reasons for this lack of participation include mismanagement, fraud and opportunism, pursuit of management goals, lack of alignment between management values and those of its members and the shorter investment horizon faced by older members. Additionally, the large size of a co-operative, the loss of the local character of co-operatives and of members' cohesion could have a negative impact on their willingness to participate.

Hence, in the following Chapter, the governance structure of co-operatives including the factors influencing its choice, the various governance models and the issues related to the Board of Directors are discussed in more depth. Moreover, the co-operative principles will be analysed and explained, in order to indicate how the research questions have been formed.

Chapter 2: Co-operative governance and principles

2.1 Introduction

In Chapter 1, co-operatives, their governance structure, their non-adherence to their founding co-operative principles as well as members' lack of participation were discussed. In this Chapter, the co-operative governance system is further analysed, highlighting the challenges the co-operative governance system faces. Furthermore, the seven co-operative principles are analysed and explained, as well as the commonalities of co-operatives and Service-Dominant Logic, leading to the formation of the two research questions.

2.2 Co-operative governance revisited

The issue of governance is as old as the separation of management from ownership (Pellervo, 2000). The most important aspect of governance in co-operatives is the active involvement of members. Bijman et al. (2014) specifically argue that the internal governance's function is to exert effective control by members-patrons over the important co-operative decisions, providing enough discretion to management to run the operations of the co-operative. Similarly, Itkonen (1996) states that governance ensures co-operative performance and relevance by connecting members, employees, management and representatives to the decision-making, strategy and policy processes. Chaves, Soler and Sajardo (2008, p.31), add that good governance is "governance that achieves the maximum level of economic performance compatible with the preservation or development of the co-operative identity, particularly maintaining democratic decision-making principles". Despite its importance, choosing and implementing the most appropriate governance structure/model is a very difficult and complex task (Spear, Cornforth and Aiken, 2007; 2009; Bijman et al., 2012b), as there are many factors that influence its choice.

2.2.1 Factors influencing the choice of governance model

The boundaries of the co-operative corporate governance are set out by the co-operative principle of democratic member control and participation (Sacchetti and Tortia, 2015), as well as by the objectives and purpose of co-operatives (Itkonen, 1996). However, a co-operative governance system cannot be implemented "as is", i.e. one size does not fit all, or even the same organisation over time, but rather they must be adjusted to reflect the organisation's origins, its history, the cultural, social, economic contexts, applicable regulation and legislation as well as the level of member homogeneity (Spear, 2004b; Spear, Cornforth and Aiken, 2007; Leviten-Reid and Fairbairn, 2011; Achleitner et al., 2012; Bijman et al., 2012a; 2012b). Moreover, the choice of the governance model to be adopted, depends on the (number of) goals of the co-operative, as numerous goals may result in a complex incentive system for management, in the loss of members' strategic focus, in members' apathy (free riding) and in cosy relationships between the Board of Directors and management (Spear, 2004b).

The governance model is influenced by the stage of the co-operative's life cycle, reflecting the level of members' active participation. That is, soon after the formation of a new co-operative, the founder members have full control and authority, as they are directly involved in all aspects, fuelled by their activism and commitment (Malo and Vezina, 2004; Spear, Cornforth and Aiken, 2007). This direct involvement of members, in small and traditional co-operatives, reduces the managerial opportunism and the costs of monitoring and collective decision-making, in contrast to that of larger and more complex co-operatives (Nilsson and Svendsen, 2011; Chaddad and Iliopoulos, 2013). However, small co-operatives are not free of governance problems, as the role of the Board of Directors is not always well defined, resulting in less strategic thinking and in its involvement in operational issues (Spear, Cornforth and Aiken, 2007) that have a negative impact on the effectiveness of the governance structure. Later on and once a co-operative is established, management and employees become salaried, the Board of Directors becomes less involved in the day-to-day operations, thus strengthening the position of management (Malo and Vezina, 2004; Spear, Cornforth and Aiken, 2007). However, the management's strengthening may confine the authority of the Board of Directors to that of rubber-stamping management decisions, instead of challenging management's strategies and policies (Itkonen, 1996; Spear, Cornforth and Aiken, 2007). Additionally, when a co-operative becomes large, membership engagement becomes difficult as the larger the membership, its heterogeneity and its geographical disparity, the less active members become (Bataille-Chedotel and Huntzinger, 2004; Spear, Cornforth and Aiken, 2007; Nilsson and Svendsen, 2011) creating the need for a more robust governance structure. Birchall and Simmons (2004) do not agree indicating that co-operatives seem to continue to be truly member-controlled and owned no matter how large they become.

Another important parameter to be taken into account when deciding on the governance structure of a co-operative is the fact that the not-for-profit nature of co-operatives forces them to design and implement more complex mechanisms than the equivalent investor-owned enterprises (Hanisch and Muller, 2012; Bijman et al., 2012a; Bijman, Hanisch and Sangen, 2014). Further to Section 1.2, this is firstly due to the fact that there are almost no external mechanisms, e.g., acquisitions and mergers that could control management (Cook, 1995; Harte, 1997; Spear, 2004b; Hanisch and Muller, 2012; Bijman et al., 2012a; Bijman, Hanisch and Sangen, 2014, Cabo and Rebelo, 2014). That is, there is no "market for corporate control" (Spear, Cornforth and Aiken, 2007, p.57). Secondly, there is no pressure on management from a dominant external stakeholder, as Boards of Directors represent numerous stakeholders, with different aims (Chaves, Soler and Sajardo, 2008; Spear, Cornforth and Aiken, 2009). The most important reason for this inability stems from the co-operatives' non-for-profit nature, firstly because it renders the market price of shares as a not valid measure of performance and secondly, the one-member, one-vote principle prevents hostile takeovers (Cabo and Rebelo, 2014).

Other factors that affect co-operative governance include the number of stakeholders in a co-operative and the presence of non-member investors.

Traditionally, co-operatives had only one stakeholder but, recently, the creation of community and social co-operatives have created multi-stakeholder co-operatives (Spear, Cornforth and Aiken, 2007), increasing the heterogeneity of members' demands (Leviten-Reid and Fairbairn, 2011). This heterogeneity has also increased the influence on the Board of Directors, by members, in pursuit of their own self-interests (Cook, 1995; Borgen, 2011). Additionally, as a result of recent changes, the existence of outside investors influence the choice of governance structure, as sometimes they are allowed to participate in the share capital of the co-operatives, in the form of preferred shares, voting or income rights (Bijman et al., 2012a). Moreover, the choice of governance structure is influenced by the profile of the Chairperson of the Board of Directors, that is, whether it promotes collective decision-making and entrepreneurship or it follows a command and control style (Bataille-Chedotel and Huntzinger, 2004). In general, the choice of governance structure should reflect the level of management opportunism costs, the effectiveness and the composition of the Board of Directors, the accessible main resources and the types of markets served (Spear, Cornforth and Aiken, 2007). Having analysed the factors influencing the choice of governance structure, the focus of the next section will be on the various co-operative governance models that exist.

2.2.2 Co-operative governance models

Co-operatives are characterized by their horizontal and inclusive governance (Sabatini, Modena and Tortia, 2014). Four different co-operative governance models exist: the traditional, the extended traditional, the managerial and the corporate model.

A key characteristic of the traditional model is the significant power that is concentrated in the hands of the Chairperson of the Board of Directors, acting as CEO, with no maximum term of office (Bijman, Hanisch and Sangen, 2014). In this model, only members are allowed to take any decisions and hence, no non-member executive or professional director can be employed (Chaddad and Iliopoulos, 2013). In particular, the traditional model provides for three governing bodies, that is, the members' General Meeting, the Board of Directors and the Supervisory Body (Chaddad and Iliopoulos, 2013; Bijman, Hanisch and Sangen, 2014).

Based on the traditional model, the most important governing body is members' General Meeting. This is because it exercises the ultimate control over the co-operative, at least once a year and through which the members exert control over management's decisions and decide on policy and other important issues (Papageorgiou, 2004; CSSDA, 2005). Decisions are taken either on a proportional (e.g., based on each members' volume of trading) or equal allocation of residual control rights (Chaddad and Iliopoulos, 2013; Bijman, Hanisch and Sangen, 2014), i.e. based on the one-person, one-vote principle (CSSDA, 2005). Decisions are taken on simple majority basis, except for those issues for which special majority is required, e.g., the amendment of the statute of the co-operative (Erakleous, 2007), dissolution, acquisitions and mergers (Chaddad and Iliopoulos, 2013). The most important aspect of the Annual General Meeting is not the ability for unanimous decision-taking, but rather the actual participation of most members in the democratic procedures, taking decisions and implementing them (Papageorgiou, 2004). Finally, the General Meeting elects the Board of Directors and the Supervisory Committee (Chaddad and Iliopoulos, 2013) and it approves the annual financial statements and it drafts the by-laws (institutions) (Chaddad and Iliopoulos, 2013).

The second most important governing body of the traditional model is the Board of Directors. It is charged with most of the decision-making as it has both real and formal authority and it exercises decision management and control on an ex ante basis (apart from the decisions that require approval by the members in the General Meeting) (Chaddad and Iliopoulos, 2013; Bijman, Hanisch and Sangen, 2014). Each member of the Board has equal rights in decision control overall though the chairman may have a winning vote in the cases of split votes (Chaddad and Iliopoulos, 2013; Bijman, Hanisch and Sangen, 2014).

Finally, according to the traditional model, the Supervisory Committee is chosen and elected by members' General Meeting and it exists only when it is stipulated by the law or the institutions (Chaddad and Iliopoulos, 2013). The main function of this Committee is to monitor the Board of Directors on an ex post basis (after decision-making) and it usually consists only of members (Chaddad and Iliopoulos, 2013). Some countries have also enabled the participation of experts that are non-members (Chaddad and Iliopoulos, 2013).

Because of practical problems in the traditional model faced in some countries in Europe, a number of innovations have been implemented to it. One of these innovations include the appointment, in growing co-operatives, of professional management charged with all decision-making, with the majority of decision control transferred from the General Meeting to the Board of Directors (Bijman, Hanisch and Sangen, 2014). Another innovation is the introduction of proportional voting in order to attract additional capital, as well as the introduction of non-members to the Board of Directors in order to complement their expertise (usually in finance, legal or marketing issues) (Bijman, Hanisch and Sangen, 2014). Furthermore, a Member Council representing the interests of various member groups was introduced, replacing the powers of members' General Meeting and also hybrid ownership structure(s) were introduced (Bijman, Hanisch and Sangen, 2014). Finally, in some countries, e.g., Germany and The Netherlands, members were separated from the legal entity that carries out the operations of the co-operative and they became shareholders in a holding company that owns 100% of the shares in the co-operative. The reasoning behind this innovation was to reduce members' liability and to give more space to management to take entrepreneurial decisions (Bijman et al., 2012a; Bijman, Hanisch and Sangen, 2014). These changes were considered as necessary in order to introduce appropriate mechanisms and tools for co-operatives to raise additional capital, e.g., by issuing non-voting shares to members at competitive interest rates (Korres, 1999), to borrow from financial markets (Fonteyne, 2007), or even to boost the market confidence in the banking system (Gutiérrez, 2008). However, these recent attempts to adopt the co-operative financial model to the changing banking industry, may take co-operatives away from their principles and values (Spear, 2004a).

In addition to the innovations of the traditional model, three further models were developed. The first one is an extension of the traditional model according to which all decisions regarding operations are taken by professional management which is recruited by the Board of Directors (Chaddad and Iliopoulos, 2013). In this case, the Board of Directors does not carry a decision-making role (Chaddad and Iliopoulos, 2013). The second model is the managerial model, in which the Board of Directors is consolidated with professional non-member management and is involved in all operational and strategic decision-making (Hanisch and Muller, 2012; Chaddad and Iliopoulos, 2013). That is, the Supervisory Committee supervises and controls management on an ex post basis (Chaddad and Iliopoulos, 2013). Finally, according to the third model, the corporate model, the Supervisory Committee is integrated into the Board of Directors overseeing management (Hanisch and Muller, 2012; Chaddad and Iliopoulos, 2013). This enlarged Board of Directors consists of both members (two thirds) and experts non-members (one third) while professional management exercises real and formal authority (Chaddad and Iliopoulos, 2013). With regards to the use of these four models (the traditional plus the three new ones), the extended traditional and the traditional models are the most commonly applied governance models for larger and smaller co-operatives respectively, in Southern Europe (Chaddad and Iliopoulos, 2013). In continental European countries, it is more common to find a two-tier governance system where the supervisory body, e.g., the Board of Directors and management, operate simultaneously (Achleitner et al., 2012). However, in the UK and the USA there is a one-tier system in operation with a single Board of Directors comprising of both members, acting as non-executive external Board members and management (Achleitner et al., 2012).

A special case of co-operative governance is that of Mondragon Corporación Cooperativa (MCC). It comprises of the (Plenary) Congress, the most important and representative body laying the general criteria and guidelines for MCC, the Standing Committee, which implements the decisions/policies of the Plenary Congress and has a wide range of authorities (Bakaikoa, Errasti and Begiristain, 2004). Finally, MCC has the General Council which provides co-ordination and direction for regulations and policy, i.e. the executive body of MCC has the highest level of power (Bakaikoa, Errasti and Begiristain, 2004). Even though the current governance structure of MCC facilitates good co-operation among the involved co-operatives, it could find ways to increase the adherence to the co-operative principles of participation and democracy, in order to avoid possible future problems (Bakaikoa, Errasti and Begiristain, 2004). However, it is not the specific governance model of MCC that has problems, but rather the essence of governance as “governance is a complex, inherently difficult and problematic activity” (Cornforth, 2004, p.26). Having discussed the four co-operative governance models, governance related-issues will be discussed in the next section, starting from the ones relating to the Board of Directors.

2.2.3 Governance issues relating to the Board of Directors

The Board of Directors must be separate from management so that any interdependencies are prevented/minimized. For example, in the case of Cyprus, the private interests of the Board of Directors and management were “intertwined with those of their customers” (Central Bank of Cyprus, 2013, p.61). This is because in smaller co-operatives the difference between the two is blurred and in larger co-operatives the Board of Directors depends on management for information and proposals (Spear, Cornforth and Aiken, 2009). Furthermore, the Board of Directors can assist the organisation to achieve its mission and goals by providing strategic expertise and support, by signaling credibility to external stakeholders (Achleitner et al., 2012), and by having written policies and strategies that reflect its perspectives and values, the regulations and laws (FSA, 2007). What is more, it can help by providing access to various networks, by ensuring legacy and vision and by empowering specific individuals to lead the organisation (Achleitner et al., 2012). As the responsibility for good governance lies in its hands (FSA, 2007), the Board of Directors is ultimately responsible for ensuring that the organisation remains financially viable, in the long-term, and that it achieves its objectives (Cornforth, 2014). This can be ensured by the Board of Directors ratifying decisions and setting the strategic direction (FSA, 2007; Bijman et al., 2012a; Mswaka and Aluko, 2015) at a higher level than management. Additionally, the role of the Board of Directors is that of fiduciaries, that is, to hold the assets and the organisation, as a whole, in trust (Mswaka and Aluko, 2015). However, as the number of stakeholders in the co-operative increases, the Board members find it difficult to balance the short-term demands of members for financial returns, on one side, with the long-term survival of the co-operative on the other side (Pellervo, 2000).

A key characteristic of co-operatives, which has a fundamental consequence on the effectiveness of their governance structure, is that co-operatives employ salaried personnel, whilst depending on volunteers for their Board of Directors (Mswaka and Aluko, 2015). Based on co-operative law, the Board of Directors must be members of the co-operative (Bijman, Hanisch and Sangen, 2014) and they must be elected by members (Bijman et al., 2012a). The paradox is that the volunteers that are elected on the Board of Directors to supervise professional management are driven by their passion for the well-being of their community and are not selected on the basis of their expertise or knowledge (Mswaka and Aluko, 2015). Ideally, and in order to be effective, the Board of Directors must consist of members that among them, achieve a balance of experiences and skills (Itkonen, 1996; Spear, Cornforth and Aiken, 2007; 2009; FSA, 2007), something that in reality is difficult as they may lack the right knowledge set and skills (Spear, Cornforth and Aiken, 2007; 2009; Cabo and Rebelo, 2014) or they may only work on a part-time basis, in contrast to the full time jobs of management (Cabo and Rebelo, 2014). This lack of skills and knowledge however, is not aligned to the role of the Board of Directors and especially that of ensuring that the co-operative provides the value added expected by its membership without taking (great) risks (Pellervo, 2000). Additionally, the part-time status of the Board of Directors opposes its task of ensuring that management remuneration, management control and members' governance systems are closely aligned to the interests of members (Pellervo, 2000). The best strategy to control management effectively could be to train the Board of Directors enriching their related knowledge and skills, easing their conflicts with members and reducing corruption (Shaw, 2007). Moreover, in order to enhance the skills and expertise of Board members, non-members could be allowed on the Board (Bijman, Hanisch and Sangen, 2014). It is noted that despite the general lack of skilful and capable volunteers, most people would accept the position on the Board of Directors if it is offered to them (Ward and McKillop, 2010).

To succeed, the Board of Directors must be distinct from the management of the day-to-day operations of a credit union (Jones, 1999) and their accountability and performance must be improved (Shaw, 2007). More specifically, the roles of the Board of Directors and management should be set so that management has full responsibility and authority over the day-to-day operations of a co-operative, while the Board of Directors or other governing bodies, should bring aboard different expertise and perspectives (Itkonen, 1996). Additional recommendations towards an enhanced co-operative governance structure include a more active Supervisory Committee and/or Internal Audit Committee that challenges the decisions of the Board of Directors, as well as a clear description of the roles of Board members and management (Itkonen, 1996; FSA, 2007).

A second problem related to the Board of Directors is that it may not represent the majority of members. As only a minority of members attend and vote at the Board of Directors elections (e.g., 1%- 5% in consumer Co-operatives), the elected Board of Directors is effectively unrepresentative of membership (Itkonen, 1996; Spear, 2004b). To enhance member representation, the Board of Directors could ensure contested elections, allowing real choice to members (Spear, 2004b) and safeguarding that appropriate controls and systems of internal controls are in place (FSA, 2007). Moreover, to deal with the professionalization of co-operatives, the Board of Directors should be restructured and the capabilities of its members should be enhanced (Hanisch and Muller, 2012). In order to downplay the role of any dominant individuals on the Board of Directors, i.e. the “member- Board conflict” (Cabo and Rebelo, 2014, p.5; Shaw, 2007), new members should be elected, while the roles of the existing should be frequently rotated (FSA, 2007). This is because the low rotation of Board of Directors’ members may indicate that the long lasting members remain in their roles through personal choice, either because there are not many good candidates for these roles or because the members vote again the individuals who already have a post (FSA, 2007). Furthermore, co-operative members could form coalitions to better control the Board of Directors and/or management (Spear, 2004b).

To better understand the role of the Board of Directors, researchers have attempted to explain it in the light of various theories such as, managerial hegemony theory (Cornforth, 2002; 2003; 2004), stakeholder theory (Itkonen, 1996; Cornforth, 2002; 2003; 2004), democratic perspective (Cornforth, 2002; 2003; 2004), resource dependency theory (Cornforth, 2002; 2003; 2004; Mswaka and Aluko, 2015), stewardship theory (Cornforth, 2002; 2003; 2004; Mswaka and Aluko, 2015) and principal agency theory (Cornforth, 2002; 2003; 2004; Spear, 2004b; Roe, 2004; Bijman, Hanisch and Sangen, 2014; Mswaka and Aluko, 2015). However, it must be noted that each of these theories sheds light only on a specific aspect of not-for-profit Board of Directors hence, a multi paradigm that concentrates on the governance paradoxes may be more appropriate (Cornforth, 2002; 2003). Proper governance should not be a matter of choosing between any of the above theories, but rather the combination of these theories, in such a way so, as to reflect upon the specific circumstances of each co-operative (Spear, 2004b).

Apart from the challenges mentioned above, a Board of Directors also faces a number of tensions. The first tension faced is among a professional and a representative Board of Directors, that is, who should serve on the Board of Directors. Based on the stewardship theory and the partnership model members of the Board of Directors should be experienced and skilled in order to add value to the organization (professionals), whereas according to the democratic perspective they should be lay members who represent their fellows (representatives) (Cornforth, 2002; 2003; 2004). These different approaches give rise to a certain dilemma, whether Board members should be elected or selected based on their expertise or whether they should represent certain group of stakeholders (Cornforth, 2003; 2004).

Another tension faced concerns the performance and conformance roles of the Board of Directors. According to the principal-agency theory, the Board of

Directors should ensure that agents (management) operate in the interests of their members, thus taking up a conformance role which requires risk aversion, scrutiny and monitoring of past performance (Cornforth, 2002). On the other hand, the stewardship theory supports that they should act in partnership with management and thus assist in enhancing the performance of the organisation (performance role requiring vision and risk-taking) by adding value to strategic decisions (Cornforth, 2002; 2003; 2004). Ways to deal with this tension include appropriate chairing of meetings and meeting agendas, use of an annual round of meetings, separation of the various Board of Directors' roles over time, and the setting of specific meetings for strategic decisions (Cornforth, 2002; 2004).

A third tension occurs between the partnering and controlling roles of management. According to the principal-agency, democratic perspective and stakeholder theories, members of the Board of Directors must monitor and control management whereas the stewardship theory requires the Board members to be partners with management, enhancing the quality of decision-making (Cornforth, 2002; 2003; 2004) and acting as a "critical friend" (Cornforth, 2002, p.56). It is important for the Board of Directors to differentiate its role from that of management as sometimes the Board is deeply involved in the day-to-day operations while in other times it is very distant in relation to these (Cornforth, 2002). One way to overcome this is by regular negotiation and discussion about various responsibilities and roles among the Board of Directors and management and by easing the resulting tensions (Cornforth, 2002; 2004).

Finally, tension may exist due to multiple or ambiguous accountability of the Board. The Board of Directors may not be clear to whom it is accountable, i.e. to members or/and to other stakeholders (Cornforth, 2002). To deal with this, management and the Board of Directors should regularly review to whom they are accountable and in doing so, to ensure that the members/stakeholders' views are taken into consideration (Cornforth, 2002).

2.2.4 Other governance-related issues

The most important challenge is that co-operatives must balance their social with their financial aims (Spear, Cornforth and Aiken, 2007; 2009), avoiding "mission drift" (Spear, Cornforth and Aiken, 2007). Ways to overcome these challenges could include compulsory reporting of the Board of Directors, at the members' Annual General Meeting, on various compliance requirements, setting out any activities that the credit union has carried out and the establishment of written and approved policies that management must follow (FCA, 2015). Other ways to remedy these challenges include co-opting non-members experts on the Board of Directors or as advisors (Spear, Cornforth and Aiken, 2009), recruiting good management (Itkonen, 1996; Spear, Cornforth and Aiken, 2009), or even including a variable part in the remuneration of management, in order to ensure the alignment of the management's interests to those of members (Cabo and Rebelo, 2014). For example the internal governance measures of Portuguese Credit co-operatives were not as effective as assumed (Cabo and Rebelo, 2014) and thus the possibility of a friendly merger with a stronger and more efficient co-operative was introduced, a move that assists in keeping management aligned and focused (Crespi, Garcia-Cestona and Salas, 2004; Cabo and Rebelo, 2014). Apart from the fear of a merger, it was found that the most significant governance mechanism, for Savings Banks in Portugal, was the removal of the chairman from the Board (Crespi, Garcia-Cestona and Salas, 2004).

In addition to the issue above, governance issues could be caused by incentive problems. The appearance of these incentive problems and their extent depend on a number of factors such as the level of members' contribution and involvement, the alignment of co-operative and members' goals and the extent of members' heterogeneity (Borgen, 2011). One such incentive problem is caused by the "vaguely defined property rights", i.e. co-operatives do not adequately define property rights and especially the residual property rights (Cook, 1995, p.1156). The conflicts that arise because of the lack of clearly defined property rights give rise to two additional problems: the portfolio problem and the decision problem. The portfolio problem is created by the absence of transferability of residual claimant rights and of a market for the co-operative's shares. Hence, members put pressure on the co-operative to change its investment decisions in line with their personal preferences, usually resulting in sub-optimal decisions (Cook, 1995; Harte, 1997; Borgen, 2011). The decision problem, arises because management finds it difficult to align the heterogeneous member interests (Borgen, 2011) and thus, the decisions it takes may not be the most optimum ones. As seen above, the portfolio and horizon problems "force" members to behave according to their own best interests and not for the common good of all membership (Harte, 1997).

Credit unions must introduce additional mechanisms for controlling management and for directing the latter's effort in serving their current and future stakeholders (Fonteyne, 2007). These could include increased transparency, e.g., through additional disclosures in reporting (Pellervo, 2000; Fonteyne, 2007), increased minimum members' investment and mechanisms to expose co-operatives to market mechanisms (e.g., by allowing borrowing from financial markets) (Fonteyne, 2007). Moreover, co-operative governance could be strengthened by the introduction of co-operative objectives that are in line with members' objectives (Itkonen, 1996). The above measures will enhance the status and the credibility of the credit union enabling it to attract more members (Jones, 1999; Alexopoulos and Goglio, 2011).

Finally, the most important challenge, in relation to governance, seems to be initiating and sustaining the active involvement of members, especially in larger memberships, not permitting the fall of the co-operative in the hands of a few members (an "elite" group) or in the hands of management (Itkonen, 1996; Papageorgiou, 2004; Spear, 2004a; 2004b; FSA, 2007). This would indicate that there is a tendency, the "quality of democracy …[to decline] over time" (Birchall, 1997, p.54). In Portugal, Saving Banks select their depositors' representatives randomly, effectively giving management more power over the other stakeholders (Crespi, Garcia-Cestona and Salas, 2004). This means that whatever the co-operative governance structure chosen, it can be strengthened by the active member involvement in the control and direction (participating democracy) of the co-operative (Itkonen, 1996; Spear, Cornforth and Aiken, 2007). Member participation could range between 100% member control and loss of member control (demutualisation) (Chaddad and Iliopoulos, 2013). These findings are in line with the findings in Sections 1.3.1 and 1.3.2. That is, the lack of members' participation reduces the effectiveness of co-operative governance. Therefore, the intention of the present study is to understand the perceptions regarding the adherence of co-operatives to their founding principles with special attention to the 2nd co-operative principle of "Democratic member control". To this effect, the co-operative principles will be analysed in the following section.

2.3 Co-operative principles revisited

Overall, the co-operative values are the foundation for co-operative principles and the latter are detailed applications of the corresponding values (Nilsson, 1996). Therefore, before proceeding to the analysis of the co-operative principles, values will be set out and briefly analysed.

The co-operative values guide the development of the appropriate rules, norms and expected controls of members' behaviours (Cicognani et al., 2012). These can act as important incentives in strengthening members' sense of community (Nilsson, 1996; Cicognani et al., 2012). According to the International Co-operative Alliance (ICA 2012a), the co-operative values are:

(1) Self-help: members must undertake initiatives to improve their financial position and not wait for someone else to do it for them.

(2) Self-responsibility: members take decisions and they accept responsibility of their actions whether positive or negative and this is because co-operatives are autonomous and do not depend financially on others.

(3) Democracy: co-operatives are anthropocentric organizations using economic resources for the improvement of their members' wealth.

(4) Equality: practised when all members are treated in the same way by a co-operative no matter their socio-economic background in decision-making and in using its services.

(5) Equity: proved by the distribution of wealth to all members based on the amount of transactions each one undertakes with the co-operative.

(6) Solidarity: the most important value as through it societies are progressing, the common needs of people are being met and all of this without expecting anything in return.

(Papageorgiou, 2004, pp.30-31)

Moving on to the co-operative principles, the first four co-operative principles are very important for the existence of co-operatives as without them co-operatives would have lost their identity (Birchall and Ketilson, 2009). From these, the first three principles are the fundamental ones as they have remained unchanged through the years (Oczkowski, Krivokapic-Skoko and Plummer, 2013). The co-operative principles, which co-operatives use in order to put their values into practice, are provided by ICA (2012a):

(a) Voluntary and Open Membership. "Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination" (ICA, 2012a). "Voluntary" refers to potential members deciding whether and when to become members while "Open" refers to a co-operative being able to accommodate new members that are willing to undertake the responsibilities that membership entails (Papageorgiou, 2004). The issue of when someone can become a member and when to leave a co-operative is something that only an individual can decide (CSSDA, 2005). There are no obligations as to when to do so and nobody (including the government) can force a person to act in either way (CSSDA, 2005). The open membership policy has economic value to future members and this value can only be realized as long as this policy is maintained (Fulton and Giannakas, 2012). Hence, as co-operatives serve the interests of a group of people with common characteristics (religion, ethnic origin etc.), the true test is not whether membership is restricted but whether membership is refused unfairly and those not qualifying have the opportunity to become members in other co-operatives (Birchall, 1997). Having stated this, under certain conditions, membership to new members may be denied, e.g., in farming where the introduction of new members will require additional machinery or premises on part of a co-operative, creating excess capacity and thus endangering the whole co-operative (Papageorgiou, 2004). With regards to members exiting a co-operative, this may be up to the member but only once certain obligations have been met (Papageorgiou, 2004). This is done in order to prevent the collapse of a co-operative, for example, in the case that members leave without meeting their loan obligations (Papageorgiou, 2004). Additionally, the members in a General Meeting can decide to expel a member that has ceased to satisfy the conditions of membership, has intentionally harmed the interests of the credit union or, without reason, has refused to perform his obligations towards the credit union (CSSDA, 2014a). Finally, the Co-operative Companies' Institutions 1987- 2012 enable the re-registration of a member that has been struck off who satisfies the membership conditions (CSSDA, 2014a).

(b) Democratic Member Control. This means that "Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions" (ICA, 2012a). "Men and women serving as elected representatives are accountable to the membership" (ICA, 2012a). Members in primary co-operatives are democratically organised, having equal voting rights based on one-member, one-vote, whilst the democratic structure applies also to co-operatives at other levels (ICA, 2012a). Moreover, "practicing democracy is not an ability, rather, it is a virtue manifested in practical ways" (Papageorgiou, 2004, p.50). This principle shows the anthropocentric nature of co-operatives and proves their socioeconomic nature (Papageorgiou, 2004), allowing for different qualities of democracy in different co-operatives and in the same co-operative at different times (Birchall, 1997). Basically, co-operatives depend on their members and thus members must have the power to take decisions as a single and unified entity (Reynolds, Gray and Kraenzle, 1997). Active participation can be measured on two axes: the percentage of members that are involved with their co-operative (spread) and their level of involvement (depth) (Birchall, 1997). Similarly, accountability can be measured by the extent to which the Board of Directors consults members and whether the Board members are typical representatives of the majority (Birchall, 1997). Despite what is claimed above, member control could be threatened by the growth of co-operatives and their “professionalization” (Osterberg and Nilsson, 2009).

(c) Member Economic Participation. “Members contribute equitably to, and democratically control, the capital of their Co-operative” and usually, at least part of the capital of the co-operative, is its “common property”, whereas, membership receives limited compensation (if any) on their subscribed capital (ICA, 2012a). “Members allocate surpluses for any or all of the following purposes: developing their co-operative…; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership” (ICA, 2012a). Limited compensation means that a co-operative will pay only as much as it has to in order to attract enough capital to finance its operations (Birchall, 1997). Co-operatives aim to increase the well-being of their members by compensating them, based on the contribution of each member towards the success of the co-operative, i.e. the value of members’ transactions (Hansmann, 1988; Papageorgiou, 2004; Cuevas and Fischer, 2006). By distributing surpluses according to the value of each member’s transactions with co-operatives, the latter have managed to build a sense of belonging and, at the same time, rapidly grow their operations (Birchall, 1997). Finally, the undistributed reserves (or intergenerational endowment) could be perceived as the social capital that existing members leave for future members and generations (Papageorgiou, 2004; McKillop and Wilson, 2011).

(d) Autonomy and Independence. This means that “Co-operatives are autonomous, self-help organisations controlled by their members” (ICA, 2012a). “If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy" (ICA, 2012a). The first co-operatives described themselves as societies in order to stress the importance of their self-governance (Atherton et al., 2011). This has been the case in Cyprus even until recently, when the ex-supervisory body was called Co-operative Societies Supervision and Development Authority. Co-operatives ensure their autonomy and independence by relying on the financial contribution of their members for their initial share capital and thereon, on the surpluses that are allocated to indivisible reserves (CSSDA, 2005). Therefore, the members of a co-operative should submit their short-term personal interest to the long-term mutual benefit of all members (Nilsson, 1996; CSSDA, 2005). Co-operatives are and should remain independent, even in relation to governments (Papageorgiou, 2004). Co-operatives do not depend on non-members or any other organisation for their financing needs (CSSDA, 2005) but, if for any reason, a co-operative must borrow money from non-members (including the government), then it does so ensuring that its independence and autonomy is not jeopardized (CSSDA, 2005). Finally, co-operatives should remain independent of any political parties as this could break up any co-operative to many smaller groups of political supporters thus, weakening it (Papageorgiou, 2004). Despite all the above, in reality, there were instances in the history of co-operatives when they had to decide whether their autonomy was restrained, e.g., when the German state provided aid to agricultural co-operatives (Simmons, Birchall and Prout, 2007).

(e) Education, Training and Information: "Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives" (ICA, 2012a). "They [co-operatives] inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation" (ICA, 2012a). The pioneers understood the need for education and training of employees, management, members and potential members as well as government officers (as regulators and advisors) so well that, in the 1850s, they allocated 2,5% of their surpluses for this purpose (Birchall, 1997). In Mondragon Corporación

Cooperativa 2% of the gross profit is used in providing research and development as well as co-operative education (Bakaikoa, Errasti and Begiristain, 2004). Moreover, in credit co-operatives in Portugal, 100.000 hours of internal teaching and 5.000 hours of external teaching are provided to 8.000 trainees per year, and qualifications are considered as a major part of the employee promotion system (Cabo and Rebelo, 2014). Also, training (education) was identified by ICA's congress in 1937, in Paris, as an important Rochdale principle (Davidovic, 1967). Without the training of members, personnel, management and the Board of Directors, co-operatives can be mistaken as normal economic organizations, forgetting their important ideological differences (Papageorgiou, 2004). Additionally, training enhances the co-operation spirit among members and encourages membership and hence, enables them to take advantage of what co-operatives offer (Papageorgiou, 2004). Thus, training has potentially large economic benefits something that investor-owned businesses are aware of (Birchall, 1997). The education of all involved is also a commitment of a co-operative to its members to render them more effective and to facilitate democratic control (Birchall and Ketilson, 2009). Co-operatives in Cyprus recognise the importance of this principle and hence they provide professional training to co-operative officers, in order to meet the rapid changes of the market conditions (CSSDA, 2004), by financing co-operative studies, organising seminars, issuing books and magazines and by using the mass media for promoting co-operatives (CSSDA, 2005). Finally, the training of members to take on a role on the Board of Directors should be seriously considered as it enhances the strength of the co-operative governance system (Spear, Cornforth and Aiken, 2009).

(f) Co-operation among Co-operatives means that "Co-operatives serve their members most effectively and strengthen the Co-operative movement by working together through local, national, regional and international structures" (ICA, 2012a). This principle can be seen as a strategy that ensures the economic success of co-operatives (Birchall and Ketilson, 2009). This can represent a substitute to the growth of any individual co-operative (Papageorgiou, 2004) and could represent a sound business practice, e.g., creation of a centralised organisation to meet the needs of co-operatives engaged in consumer goods in Europe (Davies, 1995). Co-operation can occur on a local, national and international level, as well as on the promotion of joint interests, to better serve members and to promote the co-operative movement (CSSDA, 2005). Such co-operation is advantageous as long as economies of scale can be achieved and/or knowledge and knowhow are transferred from advanced co-operatives to less advanced ones (Papageorgiou, 2004). Similarly, co-operation among co-operatives also leads to the co-operation between members of any co-operative (Papageorgiou, 2004). In theory, co-operation is beneficial but the extent to which this principle is applied in practice has to do with whether the co-operators consider themselves as part of the larger co-operative movement (Birchall, 1997). Possible ways of actual co-operation among co-operatives include the development of a range of similar products and services (ABCUL, 2013) -such as The Credit Union Current Account and pre-paid debit cards in the UK (Jones and Ellison, 2011)-, the use of the same software for carrying out their day-to-day operations and the launch of a common marketing campaign (ABCUL, 2013). Finally, a way to foster co-operation amongst co-operatives could be the creation of partnerships and mergers (Jones and Ellison, 2011; Jones, 2012; ABCUL, 2013). This is because through mergers, credit unions would become more financially stable; they would attract external finance (Jones and Ellison, 2011), strengthen existing operations, enable the entry in new markets and create economies of scale (Jones, 2012; Jones, 2016). On the other hand, partnerships would assist in achieving consistency among credit unions with regards to the delivery of service and in the quality of their products (Jones, 2012). A key ingredient for a successful merger is the existence or creation of goodwill and trust amongst the merging credit unions (Jones, 2012) something that is necessary due to the different business approaches and affiliations of each credit union that have accumulated over its many years of operation (Jones and Ellison, 2011; Jones, 2012). A first step towards a successful merger could be the collaboration among two or more credit unions (Jones, 2016). In such a case the control would remain in the hands of the management of each credit union (Jones, 2016). Once the needed trust is built then, more control can be channelled to the central management which, in the mean-time, will have built the new management and governance structures (Jones, 2016).

(g) Concern for Community "Co-operatives work for the sustainable development of their communities through policies approved by their members" (ICA, 2012a). This principle shows the inter-connection of the success of a co-operative with that of the community, in which it operates (Birchall and Ketilson, 2009). Credit unions focus on local communities, through engagement in schools and by building networks and partnerships with the local authorities (Jones, 2012). This means that apart from their primary purpose, which is to best serve the interests of their members, co-operatives also aim at the development of the societies in which they operate (Papageorgiou, 2004; CSSDA, 2005), providing benefits (Jones, 1999; Valor et al., 2007) such as, in the form of donations (Valor et al., 2007; Brannen and Ibrahim, 2010). For example, in Portugal, the Savings Banks invest about 25% of their profits into cultural and social programmes (Crespi, Garcia-Cestona and Salas, 2004). Co-operative members must identify and identify with the wider community as the latter is an important stakeholder able to influence the success of their co-operative (Birchall, 1997). However, that may be more difficult in urban societies as the sense of community may be partial and weak (Birchall, 1997). Having analysed the co-operative principles, the following section will set out and discuss the similarities between co-operatives and Service-Dominant Logic (S-D Logic).

2.4 Co-operatives and S-D Logic

The world view of services has its roots in the Goods-Dominant Logic (G-D Logic), which was founded on economic theory based on Adam Smith's theory about the *"Wealth of Nations"*. This theory was relevant to the 18th century as it was established because of the industrial revolution (Vargo and Lusch, 2004; Vargo and Lusch, 2008b; Vargo and Lusch, 2008a; Vargo, 2007; Lusch, Vargo and Wessels, 2008). At that time, the most important aspect was the efficiency of (manufacturing) production measured in units of output, standardization of production, maximization of profits and equilibrium of supply and demand (Lusch, Vargo and Wessels, 2008; Vargo and Lusch, 2008b).

Since the industrial revolution and the creation of marketing, a number of various sub-disciplines emerged in an attempt to explain phenomena (Vargo, 2007; Vargo and Lusch, 2011), as well as relationships and structures in practice, that could not be explained by the mainstream G-D Logic (Vargo and Lusch, 2008b). For example, all people serve one another, through exchange, aiming at increasing the well-being of everybody involved, i.e. value creation is of systemic and collaborative nature (Vargo and Lusch, 2011). Additionally, nowadays, the emphasis is on creating long lasting relationships between co-operating customers, suppliers and competitors, but unfortunately the G-D Logic cannot assist in understanding these relationships (Vargo and Morgan, 2005). S-D Logic of exchange is more inclusive than the G-D Logic as it can explain goods and not vice versa (Vargo and Morgan, 2005). It seems that S-D Logic tries to create a unifying umbrella under which all these sub-disciplines can be explained (Vargo, 2007) and extended (Vargo and Lusch, 2008b; Vargo and Lusch, 2011).

The conceptualization of service is the most important distinction between the S-D Logic and the G-D Logic (Vargo and Lusch, 2008b; Vargo and Lusch, 2008a). Based on G-D Logic, the organisation creates value which is then delivered to its customers, whereas the S-D Logic argues that the organisation puts together offer propositions which the customer may choose or not, and the value is created as the customer uses the solution (Lusch, Vargo and Wessels, 2008). In G-D Logic, customers are passive exogenous players that the provider can influence using the 4Ps (product, place, price, promotion) in order to buy more of what the provider produces (Lusch, Vargo, and O'Brien, 2007; Lusch, Vargo and Wessels, 2008; Vargo and Lusch, 2008a), hence the focus of G-D Logic is on efficiency of production and not effectiveness in the market place (Lusch, Vargo, and O'Brien, 2007; Lusch, Vargo and Wessels, 2008). Moreover, service in G-D Logic is merely a by-product of a tangible product or something that is added to a tangible product (Lusch, Vargo and Wessels, 2008). However, according to S-D Logic, the customer integrates the value proposition/inputs from the specific organisation and any other organisation using his own skills and experience in order to create value, i.e. customers co-create value with the organisations (Lusch, Vargo and Wessels, 2008). Additionally, S-D Logic concentrates on the interaction of the organisation with its customers in meeting their demands, in providing solutions to their unique issues and not in transferring the product ownership (Lusch, Vargo and Wessels, 2008).

Table 2.1: Fundamental Premises of S-D Logic and their explanation (taken from Vargo, 2009).

	Premise	Explanation/justification
FP1	Service is the fundamental basis of exchange	The application of operant resources (knowledge and skills), "service," is the basis for all exchange. Service is exchanged for service
FP2	Indirect exchange masks the fundamental basis of exchange	Goods, money, and institutions mask the service-for-service nature of exchange
FP3	Goods are distribution mechanisms for service provision	Goods (both durable and non-durable) derive their value through use - the service they provide
FP4	Operant resources are the fundamental source of competitive advantage	The comparative ability to cause desired change drives competition
FP5	All economies are service economies	Service (singular) is only now becoming more apparent with increased specialization and outsourcing
FP6	The customer is always a co-creator of value	Implies that value creation is interactional
FP7	The enterprise cannot deliver value, but only offer value propositions	The firm can offer its applied resources and collaboratively (interactively) creates value following acceptance, but cannot create/deliver value alone
FP8	A service-centered view is inherently customer- oriented and relational	Service is customer-determined and co-created; thus, it is inherently customer-oriented and relational
FP9	All economic and social actors are resource integrators	Implies that the context of value creation is networks of networks (resource-integrators)
FP10	Value is always unique and phenomenological	Value is idiosyncratic, experiential, contextual, and meaning-laden determined by the beneficiary

Having described the main differences of S-D Logic from G-D Logic, the analysis will now move to the similarities that co-operatives share with S-D Logic, and most importantly the need for organisations to (re)focus on their customers/members and the active engagement of the latter with these organisations. These include the fact that co-operatives are not-for-profit organisations that strive to increase the well-being of their customer/members. Similarly, S-D Logic argues that profit should not be the objective of organisations, but rather an indication/feedback of how well the organisation meets the needs of its customers/members (Lusch et al., 2008; 2010). What is more, co-operatives are created by their customers in their attempt to increase their well-being (Hansmann, 1988; Papageorgiou, 2004; Cuevas and Fischer, 2006). This however, is exactly how S-D Logic perceives customers: active actors in pursuing activities that will improve their own well-being (Vargo et al., 2008, Vargo and Lusch, 2011).

Another common point can be found in the 5th co-operative principle of "Education, training and information", according to which co-operatives strive for the education of their members, enabling them to enhance their abilities and their value creation capabilities, e.g. by "… adding together small pieces of knowledge, competence and bargaining power" (Norman, 2001, pp.105-106). In a similar way, S-D Logic refers to knowledge as one of the core competences (together with skills) that are necessary for the provision of service (Vargo and Lusch, 2004; 2008a; 2010; Lusch et al., 2008,). S-D Logic specifically focuses on the transference of knowledge as something much more important than the mere exchange of service for money (Normann and Ramirez, 1993; Normann, 2001).

Moreover, it can be said that the 6th co-operative principle, "Co-operation among co-operatives", which concentrates on the exchange of experiences and knowhow as a way to better face competition and better serve their customers/members, coincides with S-D Logic, which states that in order to survive, organisations must form networks/alliances (Prahalad and Ramaswamy, 2000). This means that companies must collaborate amongst them as interdependent networks (Vargo, 2009), as a "constellation" of suppliers or an "extended" organization (Prahalad and Ramaswamy, 2000, p.2).

Furthermore, concerning the relationship that the organisation should have with its surrounding community, this is expressed both in the 7th co-operative principle, "Concern for community" and in Lusch et al. (2007). That is, to succeed, an organisation should perceive the local community as a warehouse full of resources that the organisation could co-operate with to obtain competitive advantages and to assist the community (Lusch et al., 2007).

Finally, the most important similarity between co-operatives and S-D Logic is the fact that they both aim at encouraging the participation of members in the co-operative (the organisation), something that can be best achieved through the active engagement of members as owner/customers in the co-operative's service provision. This is because co-operatives are service-oriented (Smith, 1984) and S-D Logic is all about service. Additionally, the value of co-operatives is in usage rather than in exchange. That is, members benefit from a co-operative by using its service (Harvey and Sykuta, 2005; Yair and Davis, 2008), which is the foundation stone of S-D Logic (Vargo, 2007). Co-operatives provide personal service to their members (Hogeland, 2006), which is also one of the main components of S-D Logic. In other words, S-D Logic provides that co-operatives should concentrate on meeting their customers' demands and on providing solutions to their unique cases (Lusch et al., 2008). Having discussed the similarities between co-operatives and S-D Logic, the following section will set out the research questions of the present study.

2.5 Research questions

Considering the significance of the adherence to the co-operative principles for the proper functioning of the co-operative governance system, and further to the discussion in Section 1.3.1, e.g., that the co-operative principles empower members to be more active in the decision making (Spear, 2000) the first research question is formed as follows:

"How are co-operative principles perceived?"

Moreover, in Sections 1.3.2 and 2.2.4, it has been discussed that co-operatives must find ways to keep their members involved (Fonteyne, 2007; Shaw, 2007;

Alexopoulos and Goglio, 2011), because otherwise there will be problems with their governance (Spear, Cornforth and Aiken, 2009). This could happen, for example, as the size and geographical dispersion of members increases, gradually leading to the distance of members from their co-operative (Spear, 2004b; Chaves, Soler and Sajardo, 2008). Based on this discussion and due to the importance of the second co-operative principle, the second research question is:

“How is the democratic participation of members perceived?”

It is noted that the two research questions will be set out anew in Chapters 3 and 5 as they develop.

2.6 Summary

In this Chapter, the co-operative governance system has been discussed, highlighting the factors that influence its choice. For the traditional governance model, the most important governing body is members’ General Meeting, followed by the Board of Directors. Apart from the traditional model, three other models (extended traditional, managerial and corporate model) were created in response to practical problems faced in some countries in Europe. Additionally, the role of the Board of Directors was perceived as very important and the challenges faced by it were analysed. Furthermore, the seven co-operative principles were discussed in detail, the similarities of co-operatives with S-D Logic were set out and explained as well as the relationship between service and member engagement. Finally, the two research questions of the present study were set out. In the following Chapter, the research aim is set and the research questions are further discussed.

Chapter 3: Research intent and research questions

3.1 Introduction

Having considered the co-operative governance and the co-operative principles in Chapter 2, this Chapter highlights the need for academic research on the practical adherence of co-operatives to their founding principles. Additionally the research intent and research questions will be discussed in more detail. Finally, the intended contribution to literature and to practice will be discussed.

3.2 Qualitative research on the adherence to co-operative principles

The need for qualitative research on the practical adherence of co-operatives to their founding principles was emphasised by a number of researchers (Spear, 2000; Novkovic, 2006; Osterberg and Nilsson, 2009; Wilson and MacLean, 2012; Oczkowski, Krivokapic-Skoko and Plummer, 2013). In particular, Wilson and MacLean (2012) state that there is scope for research on assessing what co-operative principles mean to co-operative members. Moreover, Spear (2000) argues that the theoretical advantages of co-operatives over other forms of organization may not be reflected in their day to day reality. Also, Novkovic (2006) claims that there is room for improvement in the application of co-operative principles in practice. In general, the adherence of co-operative principles is so important that, in April 2015, the International Co-operative Alliance's Principles Committee set out a draft of Guidance Notes on co-operative principles (ICA, 2015a).

Given that co-operative principles, and especially that of democratic member control, are the foundations for co-operative governance (Sacchetti and Tortia, 2015) and as these represent a set of guidelines on how a co-operative and its members can interact with each other (Nilsson, 1996), the present study aims at researching the adherence of co-operatives to their principles, paying special attention to the second principle, i.e. “Democratic member control”.

As co-operatives engaged in the financial industry are currently under pressure and scrutiny, they arguably represent the ideal industry to be used for the collection of data for the present research. This is because the 2008 crisis may have had a positive or a negative effect on the level of co-operatives’ adherence to co-operative principles. That is, the crisis and the resulting pressure and scrutiny may have reinforced the importance of principles, forcing co-operatives to adhere even more to them. On the other hand, co-operatives may have suppressed their principles for more urgent issues, such as the reduction of non-performing loans, the reduction of expenses and the increase in deposits and surpluses.

As seen above (Section 1.3.1), based on the literature, in theory co-operative principles are followed by all co-operatives at all times but, in practice, this may not be 100% true. The present study thus, aims to understand the level of co-operatives’ adherence to their founding principles in the post 2008 era. This is done using structured interviews and focus groups in order to understand the perceptions of those employed and the members of co-operatives. To the view of the present study’s author, this is the first time that co-operative principles are studied in a time of crisis and this is its biggest contribution.

Additionally, this research intends to contribute to practice by informing practitioners and supervisory bodies regarding the perceived adherence of co-operatives to their principles as well as any related issues, e.g. the importance of co-operative-related training, the need for capitalization, need for enhanced professionalism and organisational structure as well as the level of involvement of political parties in running of credit unions and ways to assist surrounding communities without cost to the co-operative. Having set out the calls for more qualitative research on the practical adherence of co-operatives to their principles, the personal interest of the author of the present study on the same area will be explained below.

3.3 Researcher’s personal interest

The author of the present study has personal interest in learning more about co-operatives. This is because, having worked for fifteen years in for-profit companies, when he came in contact with co-operatives, through his employment at the senior position of a large credit union, he felt that there was something different, something distinctive about them. This distinctive feature seemed to stem from their not-for-profit nature as their objective was the enhancement of the well-being of their members (and not profit maximization). Moreover, the issues pertinent to co-operative governance, the lack of members’ participation and co-operative principles, as discussed in Chapter 2, as well as co-operatives are of great interest to the author of the present study.

The present study aims to research co-operatives, as the author believes that these organisations can benefit/assist their members, especially during the times of high unemployment, low salaries and high pressure from banks. Simultaneously, the interest lies in the adherence of co-operatives to their founding principles. Although co-operatives claim that they follow these principles, the author believes that reality may be somehow different. Finally, the successful history of co-operatives indicates the need to return to their founding principles and build on their differentiating factors, restating the enhancement of their members’ wealth as their first and foremost important objective. Having discussed the co-operative governance as well as the calls for academic research on the practical application of the co-operative principles, and the alignment of these calls to the personal interest of the author of the present study, the following section provides an overview of the existing literature leading to the two research questions.

3.4 Research intent and research questions

Considering the discussion, in Sections 1.3.1 and 2.2.4, on the importance of co-operative principles to the governance and the long-term survival of co-operatives, the intention of the present study is to understand the perceptions regarding the adherence to co-operative principles. This may be achieved by examining and understanding the perceptions of those employed and the members of co-operatives.

With regards to the first research question, as set in Section 2.4, academics such as, Nilsson (1996), Korres (1999), Fajardo Garcia (2012) argue that the co-operative principles and values form the basis of the differentiation of co-operatives from investor-owned organizations. More specifically, Korres, (1999) and Fajardo Garcia (2012) support that the distinction between true co-operatives from non-co-operatives lies within the implementation of co-operative principles. The co-operative principles reduce the transaction costs both in the interaction of members amongst them, but also in the interaction of members with external (to the co-operative) parties simply by increasing the social cohesion of members as a group, and their sense of confidence, fellowship and solidarity (Nilsson, 1996). Moreover, these principles and values act as catalysts aligning the interests of members, allowing them to function together towards the fulfilment of their common goals (Nilsson, 1996). In particular, Parnell (1995) supports that co-operative principles should be consistently and continuously applied in the day-to-day operations of the co-operatives and, at the same time, they should be kept up to date, adjusting them to the world developments and changes.

However, despite what the literature above supports, there are indications that, in reality, the co-operative principles are not put in practice as proclaimed. For example, further to the work of Wilson and MacLean (2012), Oczkowski, Krivokapic-Skoko and Plummer, (2013) argue that co-operatives engaged in financial services seem to follow none of the seven co-operative principles. Additionally, based on Sir Christopher Kelly's report one can argue that co-operatives may not adhere to their principles because if they did so, the actions of the Co-operative Bank UK, would not have “badly let down the Group's members” (Kelly, 2014, p.10). In particular, according to Novkovic (2006, p.19) there may be a “separating line between the “co-op values” and “co-op business” as there is evidence that the practical application of the co-operative principles can be improved. In a later article, Novkovic (2008) adds that even though the co-operative principles are well accepted, nevertheless, their implementation in their daily operations is entirely optional, and hence it may not happen in reality. Thus, Oczkowski, Krivokapic-Skoko and Plummer (2013) suggest that there is need for qualitative research aiming at the identification of the practical adherence of the co-operative principles by co-operatives. Furthermore, Cabo and Rebelo, (2015) reinforce this claim by saying that there is a gap between how co-operatives behave in reality and what they proclaim. For example, the co-operative principle of “autonomy and independence” is not a reality yet and the principle of “member democratic participation” is not often rewarded (Shaw, 2007). Overall, Davis and Worthington (1993) support that it is not enough for a co-operative to declare that it follows co-operative principles and values. It must apply these values in its day-to-day operations so that its members can recognize and benefit from them, focusing on and delivering services that satisfy the needs of members (Davis and Worthington, 1993).

Going a step further, a number of researchers (Spear, 2000; Novkovic, 2006; Osterberg and Nilsson, 2009; Wilson and MacLean, 2012; Oczkowski, Krivokapic-Skoko and Plummer, 2013) argue that there is room for qualitative research on the practical application of co-operative principles, for example, “the relationship between different organisational members' passion for the co-operative form and the application of the principles…, is worthy of further exploration” (Oczkowski, Krivokapic-Skoko and Plummer, 2013, p.59). Similarly, Wilson and MacLean (2012), state that there is scope for important research on the systematic assessment of what co-operative principles mean to the various stakeholders. Moreover, Oczkowski, Krivokapic-Skoko and Plummer (2013) argue that there is a need for qualitative research on the practical adherence of co-operative principles by co-operatives. What is important is the fact that the application of co-operative principles in practice can be improved (Novkovic, (2006), while it is highlighted that there is not a lot of research on the ways co-operatives have integrated their values into their operations (Shaw, 2007). Based on the above the first research question is:

"How is the practical application of the co-operative principles perceived?"

The second research question is mainly based on the discussion in Sections 1.3.2 and 2.4. In these sections, it has been identified that co-operatives must find ways to keep their members involved (Spear, Cornforth and Aiken, 2009), as their members play an important role in the success and long-term survival of their co-operative (Hakelius, 1996, cited in Bhuyan, 2007). In the case of member alienation, there could be a negative impact on the effectiveness of the co-operative governance model (Alexopoulos and Goglio, 2009; 2011) and could even cause the failure of a co-operative (Bhuyan, 2007). Additionally, as discussed above (Section 2.2.4), the lack of members' participation, could allow a small (an "elite") group to control the co-operative (Itkonen, 1996; Birchall, 1997; Papageorgiou, 2004; Spear, 2004a; Spear, 2004b; FSA, 2007), or even "permit" management to become the dominant figure (Spear, Cornforth and Aiken, 2007). This may restrict the authority of the Board of Directors to rubber-stamp management decisions and to review the past performance of co-operatives instead of challenging management (Itkonen, 1996; Spear, Cornforth and Aiken, 2007). Finally, the lack of members' participation could cause problems in the identification of proper individuals to run for the Board of Directors' elections (Spear, Cornforth and Aiken, 2007; 2009) effectively, leading to Boards of Directors that do not have the required skills for the job in hand (FSA, 2007).

Despite the importance of members' involvement in their co-operative and the negative consequences mentioned above, there is evidence that members are distant from their co-operatives. It seems that when a co-operative is small and members are homogeneous, they are inclined to participate in their co-operative (Nilsson and Svendsen, 2011), but even in this case, members may become tired and hence distant themselves (Birchall, 1997). On the other hand, as a co-operative becomes large and the geographical dispersal of members increases, membership engagement becomes more difficult (Bataille-Chedotel and Huntzinger, 2004; Spear, Cornforth and Aiken, 2007; 2009). Moreover, in large and heterogeneous co-operatives, members tend to free ride instead of controlling their co-operative because they believe that even if they participate they could achieve nothing or that others will control it (Nilsson and Svendsen, 2011; Edwards, 2013). Moreover, members in large co-operatives may distant themselves if they feel that they are ignored by management (Hakelius, 1996 cited in Bhuyan, 2007). Another reason for this abstention may be mismanagement, fraud and opportunism (Sacchetti and Tortia, 2012) as well as management pursue of its own goals, ignoring members' needs (Bhuyan, 2007), that is, when there is a misalignment of management objectives from members' objectives (Sacchetti and Tortia, 2012). Finally, members may refrain from participating when they feel that the benefits and costs associated with membership are not balanced (Leviten-Reid and Fairbairn, 2011).

Member alienation could be identified by the percentage of members attending the Annual General Meetings. For example, there are findings that in democratic, member-based organisations (including co-operatives), members cannot control management effectively as, in 2001, only around 3% of members attended and voted at Annual General Meetings (Spear, 2004b). Moreover, in 2007, only 3,6% of members (44,000 in total) attended the meetings of the Swedish Farmers' Supply and Crop Marketing Association (Nilsson, Kihlen and Norell, 2009). Furthermore, the attendance of members at the General Meetings of Mondragon Corporación Cooperativa is lower than 30% reflecting the fact that citizens are not as active as anticipated (Bakaikoa, Errasti and Begiristain, 2004). Based on the above it seems that despite what is proclaimed, there is evidence that members may not be so actively involved with their co-operative and that they are distant in relation to it. This lack of participation could cause important problems to co-operatives as was the case with the Co-operative Bank UK, where the Group Board did not fulfil its duties to "provide effective stewardship" and thus "collectively…failed to ensure that the Co-operative Bank consistently lived up to its ethical principles" (Kelly, 2014, p.4). Hence, “these practical problems have to be understood and admitted if we are to apply the co-operative principle of democratic member control” (Birchall, 1997, p.54). Finally, based on Wilson and McLean’s (2012, p.539) call for additional research “can active democratic participation by the majority of members be evidenced?” the second research question has been formed as follows:

“How is the active democratic participation of members perceived?”

3.5 Contribution to existing knowledge and practice

One of the debates which started in 1980s and is still valid today relates to the governance system of co-operatives, with a number of researchers having highlighted, since 2002, the need for more research on co-operative governance. As co-operative principles, such as the principle of democratic member control and participation (Sacchetti and Tortia, 2015), represent the guidelines that describe the form and inter-relationships of members with their co-operatives. This means that since the co-operative principles are considered to be the foundation for the governance structure and the indicator of the co-operative governance’s level of effectiveness, the aim of the present research is to study the adherence of co-operatives to their founding principles. By doing so, the present study will contribute to the general theory of co-operatives and more specifically to the effectiveness of the co-operative governance.

The present study also aims to contribute to practice by informing the co-operative movement, the supervisory authority and the general co-operative movement regarding the members’ level of participation as well as possible reasons and solutions for this. More specifically, the present study highlights the importance of co-operative-related training to all that are involved (Board of Directors, management, employees, existing and potential members, the general public, governmental officials); the low participation rates of members to the Annual General Meetings, to elections for the Board of Directors and standing as candidates for the Board elections and; the need for strengthening the capitalization of co-operatives in anticipation of downturns of economy. Moreover, the present study aims to highlight to the supervisory authorities, the governmental officials and the regulators the need to enhance the professionalism and organisational structure of co-operatives and finally the extent of involvement of political parties in running of co-operatives.

3.6 Summary

In this Chapter, the need for qualitative research on the practical adherence of co-operatives to their founding principles was analysed and the aim of the present study was set to investigate the adherence of co-operatives to their founding principles. Additionally, as the co-operatives engaged in the financial industry are currently under pressure and scrutiny, they arguably represent the ideal industry to be used for the collection of data for the present research.

The adherence to co-operative principles is studied because a number of academics argue that there is room for qualitative research on the practical application of co-operative principles and because despite what the existing literature argues, there are indications that, in practice, not all co-operatives adhere to their founding principles. Based on these, and in addition to Section 2.4, the 1st research question has evolved to: **"How is the practical application of the co-operative principles perceived?"**

As co-operative members are an important part of their co-operative, and as co-operatives are run by members for the benefits of members, to avoid potential problems and in order to succeed, co-operatives must find ways to keep their members involved. Despite this, there is evidence that members are distant from their co-operatives. Based on the above and Section 2.4 the 2nd research question has become: "**How is the active democratic participation of members perceived?**". The present study aims also at contributing to practice by highlighting the importance of co-operative-related training; the lack of member participation; the need to enhance the professionalism and organisational structure of co-operatives and finally, the extend of involvement of political parties in running of co-operatives. To the view of the present study's author, this will be the first time that co-operative principles will be studied in a time of crisis and this could be its biggest contribution.

As we have seen the intention of the present study is to understand the perceptions of employees and members of co-operatives in relation to the adherence of the latter to their founding principles. As it will be shown in the next Chapter, in doing so, the present study considers collecting data in the context of Cyprus. This geographic location is probably one of the most important as to the amount of pressure and scrutiny that has accumulated as a result of the financial crisis of 2008 and the local financial breakdown of March 2013. The changes that took place in credit unions in Cyprus include the passing of 99% of their ownership to the state, the very intense schedule for mergers reducing their number from more than 100 to just 18 within a few months. Additionally, there was a transfer of co-operatives' supervision to the Central Bank and mounting pressure to reduce the huge percentages of non-performing loans (caused by the change in the way they were calculated, by the unemployment and the salary reductions) in order to reduce the need for more external capital. All these changes that took place could have pressured Cypriot credit unions to either adhere even more to their principles or; to abandon them. Either way, Cypriot credit unions are a good co-operative sector in a good geographic location to collect data for the present study, a discussion that will follow in Chapter 4.

Chapter 4: Research context

4.1 Introduction

In this Chapter, the reasons for choosing Cyprus as the geographical area for this research are discussed, giving details of the Cypriot co-operative movement and analysing credit unions as the type of co-operative to be researched in the present study. The choice of credit unions is also supported by the indications that they could represent a viable answer to the calls for change in the financial industry, following the financial crisis of 2008. Moreover, credit unions are compared to investor-owned banks their special features and importance are discussed as well as their relevance to the data collection of the present research.

4.2 The Cyprus context

The co-operative movement in Cyprus already has 100 years of history and it focuses on meeting the needs of its members (CSSDA, 2004). Cypriots trust co-operatives as the latter are the main reason behind the uplift of peoples' standard of living, enabling their members to avoid money-lenders and to be in a better negotiating position with regards to merchants (CSSDA, 2004). For this and for another four reasons, Cyprus has been chosen as the focus for this research.

As a starting point, co-operatives are very important for the Cypriot economy, as in the past there were 365 Savings and Credit co-operatives (Jones, 2001; CSSDA, 2004) managing 32% of the domestic deposits of the island (Jones, 2001). In 2002, the co-operative financial institutions employed 1,877 people, having deposits of Cy£3,513 million and loans of Cy£2,670 million (CSSDA, 2004). By April 2007, there were 286 co-operative financial institutions, with deposits amounting to €5,544 million and loans of €4,000 million (CSSDA, 2007). However, as part of the continuous mergers between co-operative financial institutions their number has reduced from 286, in April 2007, to just 99 in 2012 (CSSDA, 2012). In March 2013, the Credit co-operative sector managed 18% of the total assets of the Cypriot banking sector (Central Bank of Cyprus, 2013), whereas, in 2014, it managed around 25% of deposits and around 20% of loans (Stockwatch, 2015). In 2015 the number of credit unions fell to just 18 (Stockwatch, 2015), due to the mergers amongst them with no closures. Due to the measures taken following the financial crisis of 2013, the number of co-operative branches has been reduced from 472, in 2002, (CSSDA, 2004) to 417, in 2012, and to 296, in 2014 (Stockwatch, 2015). Even after the reduction in the number of their branches, and with only 20%- 25% market share, co-operatives operate the same number of branches as all commercial banks combined (Stockwatch, 2015). Also, co-operatives in Cyprus play a very important role in the reduction of unemployment as the co-operative sector in Cyprus is the largest employer after the public service (CSSDA, 2004).

The second reason for focusing on Cypriot co-operatives is that they are facing the same issues as other co-operatives around the world. For example, the perceived inability to attract external finance due to their small size and the inexperience of co-operatives in dealing with the financial markets and the restrictions of one person, one vote discourage members from increasing their shareholdings in co-operatives (Co-operative Central Bank Ltd, 2011). These highlight the fact that co-operatives in Cyprus rely only on retained profits to increase their capitalization thus, lag behind the investor-owned banks which do not have such restrictions (Co-operative Central Bank Ltd, 2011). A second common problem among Cypriot and co-operatives around the world face is the double supervision scheme which in some cases does not facilitate enough enforcement of decisions by either of the two supervisory bodies. However, as a result of the 2013 financial crisis in Cyprus, the supervision of credit unions was taken from the Commissioner for the Co-operative Societies Supervision and Development Authority (CSSDA) and was granted to the Central Bank of Cyprus (Central Bank of Cyprus, 2013; 2015a; CSSDA, 2014b). By doing so, the double supervision was eliminated as co-operatives were appointed under the same supervisor as investor-owned banks.

A third reason is that they face the same governance challenges as other co-operatives around the world. More specifically, co-operatives in Cyprus operate under the traditional governance structure, i.e. they are governed by a Board of Directors that is elected by members, during an Annual General Meeting (AGM) (Bijman et al., 2012a). The Board of Directors has no salary or other financial benefits and is elected for a renewable three-year term (Bijman et al., 2012a). The Board of Directors has no executive powers and hence it appoints a salaried General Manager (not necessarily a member of the specific co-operative), with no voting rights, to implement the decisions of the Board of Directors (Bijman et al., 2012a). In addition to the problems associated with traditional governance structure (Section 2.2.2), credit unions also face other problems as identified by the Independent Commission on the Future of the Cyprus Banking Sector. These problems include the private interests of the members of the Board of Directors and that of management which are "intertwined with those of their customers, particularly their borrowers" (Central Bank of Cyprus, 2013, p.61). What is more, it has been found that credit co-operatives were influenced by political figures/parties and that their supervision was ineffective (Central Bank of Cyprus, 2013). These problems have left Cypriot co-operatives with an ineffective governance system and huge losses, created by bad and non-performing loans (Central Bank of Cyprus, 2013). To rectify these governance problems, the Independent Commission on the Future of the Cyprus Banking Sector, suggested the restructuring of Credit co-operatives to enable the introduction of "governance that is strong and, above all, independent" (Central Bank of Cyprus, 2013).

The final reason for focusing on Cypriot co-operatives is the fact that the author of the present study has had experience in this environment. To be able to collect data for his research, a researcher must understand the interviewees' culture and language (Foddy, 1993). He must be able to access sensitive information, establish strong rapport with the interviewees and gain their trust (Foddy, 1993). With the researcher having been a General Manager of a large credit union in Cyprus his access to data in the specific context is facilitated, as he has already established strong rapport and understanding of the participants' culture and language. Having analysed the reasons for choosing Cypriot co-operatives, the following section will analyse the economy of Cyprus so as to set the scene for the present study.

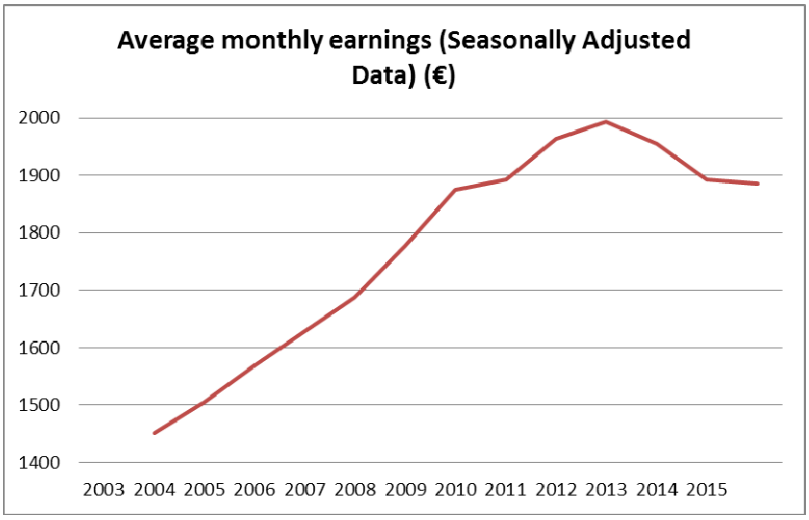
4.2.1 The economy of Cyprus

Cyprus joined the European Union on 1st May 2004, and on 1st January 2008 it adopted the Euro as its currency (Central Bank of Cyprus, 2011). Overall, Cyprus is a small open economy with a Gross Domestic Product –GDP at current prices- of €17,506,000, at the end of 2014, down from €19,063,000, at the end of 2010 (Central Bank of Cyprus, 2015b). During the decade 2000-2010, the Cypriot economy was strong with the fiscal deficit being at 2,7% of GDP and the Current Account deficit being at 6,9% of GDP (Central Bank of Cyprus, 2011). Financial services, tourism and real estate, in 2010, represented about 70% of GDP rendering services the largest sector of the Cypriot economy (Central Bank of Cyprus, 2011).

As a result of the financial crisis of 2008, Cyprus entered recession, in 2009, with its problems heightening in March 2013 due to the local financial crisis. In 2009, the real growth shrunk by 1,7% with construction and other sectors of the economy facing serious problems (Central Bank of Cyprus, 2011). It is worth noting that construction, in 2013, had reached a record decrease of 32,6% (measured at the end of 2013) and a further decrease of 17,4% in September 2014 (Central Bank of Cyprus, 2015c). Inflation averaged 2,7% for the first decade of 2000 (Central Bank of Cyprus, 2011), reaching -0,4%, in 2013, and -1,4%, in 2014 (Central Bank of Cyprus, 2015b).

The Cypriot financial crisis of March 2013 had serious effects on the economy and on people. From these, it is noted that the GDP Per Capita has decreased from €27,300, in 2008 (highest for the period 2004-2014), and €24,800, in 2012, to just €23,200, in 2014, signalling a fall of 15% (Central Bank of Cyprus, 2015e). Moreover, unemployment soared at historically high levels, from an average of 4,5% for the period 2000- 2010 (Central Bank of Cyprus, 2011) to 11,3%, in 2014 (highest percentage since 2004) (Central Bank of Cyprus, 2015b, 2015e). The reduction in the monthly earnings for the second quarter of 2003-2015 are seen in Figure 4.1 below, showing the rollback of monthly earnings by at least four years, to the monthly earnings of 2011. Moreover, the “Risk of poverty” increased, in 2014, to 27,4% from 23.3%, in 2008. This constitutes another indication of the worsening of the income of households in Cyprus (Statistical Service of the Republic of Cyprus, 2015d). In a slightly better trend, the forecasts for real GDP growth for 2015 was 0,2%, for 2016 it was estimated at 1,3% and for 2017 is estimated as 1,8% (Central Bank of Cyprus, 2015c), indicating an expected improvement of the financial situation.

Figure 4.1: Average monthly earnings (seasonally adjusted data) for the period 2003-2015 *(Prepared by author using data from the Statistical Service of the Republic of Cyprus, 2015a).*



In addition to the reduction in the household income, the financial crisis of March 2013 also caused a reduction in deposits. This could be the result of the deposit haircut (or bail-in, i.e. the reduction of the amount of each client's deposits over €100.000 in an attempt to cover the bank's losses) and the flow of deposits out of the banks (and abroad) in an attempt to save them from a second haircut or to have them available in case of additional capital controls on the movement of cash. The value of deposits ("Amounts owed to customers") in the Cypriot system has decreased from €95,5billion, by the end of 2010, to just €47,4billion by end of March 2016 (Central Bank of Cyprus, 2016). At the same time, the balance of loans ("Total loans and advances to customers (gross of allowances)") from banks and co-operatives to their customers has decreased from €93,6billion, by the end of 2010, to €55,1billion, by the end of March 2016 (Central Bank of Cyprus, 2016). This could indicate the pressure from banks on customers to repay their loans and the pause in granting new loans. Based on the Financial Statements of Co-operative Central Bank Ltd for the year 2013 and the period from 1 January to 30 September 2015, the balance of loans granted to customers (before provision for non-performing loans) as at 31 December 2012 was €13,9billion (Co-operative Central Bank, 2015a, p.51) whereas, as at 30 September 2015 it was €12,9billion (Co-operative Central Bank, 2015b, p.46,47), showing a 7,4% decrease most probably due to the non-granting of new loans to members.

4.2.2 Banking sector in Cyprus

The banking sector in Cyprus includes a large number of banks. More specifically, there are seven local banks (three of which are listed on Cyprus Stock Exchange, with one of them being subject to resolution), the Co-operative Central Bank Ltd (acting as Central Body) and eighteen co-operative Credit Institutions affiliated to the Central Body (Central Bank of Cyprus, 2015d). In addition to the local banks, there are currently six subsidiaries of foreign banks (Central Bank of Cyprus, 2015d) -in comparison with eight in 2011 (Central Bank of Cyprus, 2011)-, there are nine branches of banks established in European Union countries, sixteen branches of banks from non-EU countries (Central Bank of Cyprus, 2011; 2015d) and two representative offices (Central Bank of Cyprus, 2015d) -compared to just one in 2011 (Central Bank of Cyprus, 2011)-. It is worth noting that, in 2013, as a result of the financial crisis in Cyprus, the second larger local investor-owned bank collapsed and its operations were merged with the biggest local one, creating a local bank with huge financial problems partly due to the size of the non-performing loans.

The banking sector in Cyprus is supervised by the Central Bank of Cyprus, whose primary objectives include, ensuring a stable and safe financial system that fosters economic stability, economic growth and, at the same time, preserves public confidence (Central Bank of Cyprus, 2011). The role of the Central Bank of Cyprus is to grant the necessary licenses to all interested parties to carry banking business in Cyprus, to protect depositors and to minimize systemic risk through an effective supervision (Central Bank of Cyprus, 2011). Its supervisory role is exercised on a consolidated basis and covers the banks and their subsidiary companies engaged in banking related activities (Central Bank of Cyprus, 2011). Finally, the Central Bank of Cyprus follows the EU Directives on banking regulation and the banking supervision recommendations of the Basle Committee (Central Bank of Cyprus, 2011).

4.2.3 The co-operative movement in Cyprus

Even though the co-operative practice, especially among farmers, has existed since the ancient times, the co-operative movement in Cyprus began, in 1909, about 60 years after the European one because of the difficulty in building up enough initial capital and because of the apathy that was caused by peoples' fear and disappointment from the money-lenders' power and actions (CSSDA, 2004). The co-operative movement in Cyprus was created in 1909, "placing man, his needs and his problems at the centre of its attention" (CSSDA, 2004, p.73). The first official step in the creation of co-operatives, in Cyprus, was taken in 1914, when the "Law 13 for Co-operative Credit Societies" was approved, enabling farmers to form co-operatives (CSSDA, 2004) (in comparison, this step in Greece, took place in 1993 (Karafolas, 2005)). After this, the establishment of the Agricultural Bank, in 1925, led to the creation of an even larger number of co-operative societies as it lent money to local co-operative financial institutions which, in turn, granted loans to farmers (CSSDA, 2004). After independence, in 1960, co-operatives in Cyprus grew stronger (Bijman et al., 2012a) as they were considered a necessity for the restriction/elimination of social problems, for the increase in the cohesion and unity of society and for fighting poverty and financial exclusion (CSSDA, 2004). Moreover, co-operatives were necessary because money-lenders and merchants, taking advantage of illiterate farmers, charged interest at rates as high as 600%, instead of the official interest rate of 12% (CSSDA, 2004). Today, co-operatives in Cyprus offer a complete range of financial services and products including, loans for housing, education, health and business (CSSDA, 2004), deposits, current accounts with or without cheques, credit and debit cards, buying and selling of foreign currencies, insurance services, internet banking as well as ATMs (Co-operative Central Bank Ltd, 2012).

With regards to the status of Cypriot co-operative financial institutions in relation to the European ones, in 1996, Cypriot co-operative credit institutions were harmonized with the European Directive on Money Laundering enacting the Law on the Prevention of Money Laundering (CSSDA, 2004). Moreover, during the years between 2001 to 2007, the co-operative movement harmonised the Co-operative Societies' Legislation with the European Directives on credit institutions (CSSDA, 2004) and the European Directive putting in place their own Deposit Guarantee Scheme in 2000 (CSSDA, 2004). In addition, since 2003, co-operative financial institutions have aligned with the provisions of the European Section on State Aid, when it was agreed to tax the portion of profits that result from transactions with non-members (CSSDA, 2004).

Cyprus follows the traditional governance model (Section 2.2.2), thus, General Meetings (the supreme body in a co-operative) are where members' control is expressed (Erakleous, 2007; CSSDA, 2014a). Annual General Meetings can be summoned by the Board of Directors (Erakleous, 2007) within three months from the receipt of the audited financial statements (CSSDA, 2014a). Additionally, an Extraordinary General Meeting can be summoned by the Board of Directors or the Commissioner of CSSDA (CSSDA, 2014a). The members have the right to attend both regular Annual Meetings and the Extraordinary Meetings (Erakleous, 2007). In the General Meeting, decisions on any subject that concerns a co-operative can be taken and are binding on all members (Erakleous, 2007). During an Annual General Meeting, members have the power to assess the actions (or the lack of actions) of management in the period since the previous General Meeting (Erakleous, 2007). In practice, during an Annual General Meeting, the members present can approve the financial statements (CSSDA, 2005; 2014a; Erakleous, 2007), examine any member complaints, regarding the fairness of the Board of Directors' decisions, (CSSDA, 2005; Erakleous, 2007) and decide how the profits of the previous year will be distributed (Erakleous, 2007; CSSDA, 2014a). Moreover, at the General Meetings, the members ensure that their co-operative has followed the legal framework and the co-operative principles and that the decisions taken in previous General Meetings have been implemented (CSSDA, 2005). Additionally, members vote for the Board of Directors and they approve the appointment of the external auditors of the co-operative (Erakleous, 2007). Overall, during a General Meeting, members decide about the dissolution of their co-operative and they have the legal right to deal with any issue which concerns their co-operative (Erakleous, 2007), including any governance-related problems.

Concerning the Cyprus co-operative movement's institutional bodies, these include the Committee and the Commissioner of Co-operative Societies' Supervision and Development Authority (CSSDA), the Co-operative Central Bank Ltd, the Co-operative Societies' Audit Service and the Pancyprian Co-operative Federation Ltd (CSSDA, 2004). The Co-operative Central Bank Ltd was created in 1937 and since then, it has acted as the central banker and the 'lender of last resort' for the co-operatives (CSSDA, 2004). Since 2003, the Co-operative Central Bank has also acted as the Central Body for all the co-operative financial institutions that either meet the minimum preconditions - but do not want to operate independently of the rest of the co-operative financial institutions- or do not meet them and hence affiliate with the Central Body in order to meet the threshold on a consolidation basis (CSSDA, 2004).

Finally, co-operatives in Cyprus declare that they follow the co-operative principles and values. This is evident by the central focus of co-operative principles and values in the publications of various member organizations of the co-operative movement in Cyprus. For example, CSSDA has published a 23 page long booklet, which sets out the history of the co-operative movement in Cyprus, devoting three pages to explain the co-operative principles and values (CSSDA, 2004, 2005). Furthermore, the Co-operative Central Bank has devoted three pages in each of the two booklets prepared for the Education Fairs of 2008 and 2010, setting out and explaining the seven co-operative principles, (Co-operative Central Bank Ltd, 2008; 2010). Additionally, four pages of the booklet that was prepared by the Pancyprian Co-operative Confederation, as part of the celebrations for the 100 years of co-operative presence in Cyprus, focused on the co-operative identity, principles and values (Pancyprian Co-operative Confederation, 2010). Finally, the Co-operative Central Bank Ltd, the Cyprus Turkish Co-operative Central Bank Ltd and the

Pancyprian Co-operative Confederation are all members of the International Co-operative Alliance (ICA), indicating that co-operatives in Cyprus adhere to the international co-operative principles and values (ICA, 2012b).

Having explained the relevance of Cyprus as the geographical area for the proposed research and having set out information about co-operatives and the banking industry in Cyprus, it could be argued that the best context in which to test their adherence to the co-operative principles is the financial industry. This is because the effects of the 2008 financial crisis are still being felt and academics and commentators are still voicing their requests for changes in this industry, inevitably putting pressure on all organisations that operate in it, including credit unions. But before this, the present research will pause so that the issue of whether Cypriot financial co-operatives are credit unions will be examined.

4.2.4 Are co-operative financial institutions in Cyprus credit unions?

In Cyprus, there are two types of co-operative financial institutions: “Synergatiki Pystotiki Etairia” (or Co-operative Credit Company) and “Synergatiko Tamieftirio” (or Co-operative Saving). The first type operates within a specified geographical area, whereas the second type operates within a specified profession, e.g. police officers, army officers, teachers, etc. Both types of co-operative financial institutions register as members, people from their given area/profession only and they grant loans to their members only. For both, only members can be elected on the Board of Directors and for both, the ultimate power rests with the members’ General Meeting where the one-person, one-vote principle is practised. Additionally, it is not necessary for employees and management to be members in either of the two financial institutions. Both types of co-operatives are subject to the same law and institutions and have the same supervisory authority. There are no restrictions on the amount of deposits, whereas the restrictions on the amount of shares to be held by any one member (physical person) are the same (less than 20% of issued share capital of the organisation- paragraph 23) (CSSDA, 2014a, p.7).

During a search in various websites of credit institutions in Cyprus, on 30 September 2013, in the Greek version of the websites almost all of them referred to themselves as co-operatives. However one had a logo in Greek stating "Always remember this bank is yours" (http://www.stlmk.coop.com.cy/), another called itself as "Co-operative Bank" (http://www.estpafou.com/english/minima.shtml), a third one referred to itself as a "dynamic, effective and reliable banking institution" (http://www.lefkosia.coop/) and a fourth as a "modern banking institution" in Greek (http://www.coopparalimni.com/index.php/2013-06-04-17-04-43/2013-06-04-17-09-19). When the author of the present study also checked the English version of the same sites, one referred to itself as "Co-op" followed by its geographical area (http://www.coop-yeroskipou.com/en/coop/intro.html; http://www.coopparalimni.com/), two had at the end of their websites the following: "© 2011 Nicosia Coop Bank. All rights reserved" and "Copyright Coop Paralimni © 2013" respectively. Finally, one of the credit institutions referred to itself as "Co-operative Savings Bank" (http://www.stl.com.cy/). Based on the above search, it can be said that the Cypriot financial co-operatives are indeed co-operatives, but the names used are not in agreement with this, especially in the English version of their names (e.g., with regards to the copyrights or the provision of banking services, etc.).

Additionally, the author of the present study, having had the experience of dealing with both types and having studied their legislation and their institutions, personally considers that these two types of co-operative credit institutions may not be anything else but credit unions. This is because, according to the World Council of Credit Unions (WCCU, 2012) the description/criteria of what can be called a credit union are all met by the credit institutions in Cyprus (Table 4.1 below).

Table 4.1: Similarities of the Credit Co-operative Institutions in Cyprus with credit unions (based on WCCU, 2012)

	"Criteria" set by WCCU	**Criteria met by Co-operative Credit Institutions in Cyprus?**	
1a	Credit unions, called by various names around the world,	Co-operative Credit Company	Co-operative Saving
1b	are member-owned,	True	True
1c	not-for-profit	True	True
1d	financial cooperatives that provide savings, credit and other financial services to their members.	True	True
2	Credit union membership is based on a common bond, a linkage shared by savers and borrowers who belong to a specific community, organization, religion or place of employment.	Geographical area of residence or employment	Profession
3	Credit unions pool their members' savings deposits and shares to finance their own loan portfolios rather than rely on outside capital.	True	True
4	Members benefit from higher returns on savings, lower rates on loans and fewer fees on average.	True	True
5	Credit unions worldwide offer members from all walks of life much more than financial services. They provide members the chance to own their own financial institution and help them create opportunities such as starting small businesses, growing farms, building family homes and educating their children.	True	True
6a	Regardless of account size in the credit union, each member may run for the volunteer board of directors	True	True
6b	and cast a vote in elections	True	True

Based on the above similarities between Cypriot financial co-operatives and credit unions and as a matter of simplicity with regards to the names of the two types of the former, the present study will use the term "credit union" when referring to Cypriot financial co-operatives. Moving on, as it might be the case that financial co-operatives could represent a viable answer to the calls of academics and professional media for changes in the financial industry, especially for a back to basics, more transparent, fairer and more ethical services, the analysis moves to the financial crisis of 2008 and more specifically to the calls for change as a result of it.

4.3 Calls for change in the financial industry

The need for changes in organisations engaged in the finance industry was identified by the author of the present study through the review of academic and professional media in the periods after the financial crisis of 2008, and more specifically in 2010 and 2011. The crisis and its significant and ongoing consequences have provoked academics, individuals, commentators, regulators and professional institutions to call for change. Given that academic articles usually lag behind professional media, the decision was taken, by the researcher of the present study, to review the latter in order to identify the themes that are useful in establishing people's reactions to the financial crisis and what needs to be done in order to improve the situation.

For the purpose of the present study, international professional media was initially reviewed aiming at highlighting demands and expectations. This review was carried out through the library of the University of Glasgow "Newsbank", searching the headlines and using the key words 'financial crisis' for the years 2008 and 2009 and then for 2010 and 2011. In addition to professional media, academic journals were reviewed by searching using the key words 'financial crisis 2008', 'small business' and 'personal banking' for the years 2010 and 2011, in Business Source Premier, Econlit and Science Direct databases. The academic articles found simply confirmed what was already discussed in professional media (Table 4.2). That is, not much had been done yet and that there was a pressing need for ethical finance.

Table 4.2: Findings from both the academic journals and the professional media:

	Need	Calls for action: Professional media	Calls for action: Academic & government
1	New business models	Carnall (2008); Boyle, (2008); Tett, (2008); Duncan and Kennedy, (2008); Atkins (2009); Nimmo, (2010); Mustafa, (2010); Anonymous (2010c); Anonymous (2011a); (Anonymous, 2011b); O'Brien (2011); Farrands (2011)	Crotty (2008); Dudley (2009); Brunnermeier (2009); Colander et al. (2009); Dowd (2009);
2	Change	Chan (2010); Fitoussi (2010); Rowley (2010); Tan (2010); Anonymous, (2010b); Anonymous (2010e); Hadfield (2011); Wilson (2011); Cermak (2011b); O'Brien (2011); Raleigh (2011); Anonymous (2011d)	Simmons, Birchall and Prout (2007); Borio (2008); Congleton, (2009); Richter (2009); Blundell-Wignall and Atkinson (2009); Massey (2010); Coperstake (2010); Peters, Pierre and Randma-Liiv (2010); Transparency International (2010); Berg, (2011); Grint and Holt (2011); ECRC (2011); Mehran, Morrison and Shapiro (2011); Gibbons (2011);
3	Legislation/ Regulation	Benoit and Wilson (2008); Hosking (2009); Booth (2009); McCathie (2010); Felsenthal and Clarke, (2010); Anonymous (2011c); Johnston (2011a); Yee (2011); Chang (2011a); McArdle (2011); Lagarde (2011); Johnston (2011b); Cermak (2011a)	Scott (2009); Kotz (2009); Ingves (2009a); Ingves (2009b); Brunnermeier et al. (2009); Gorton (2009); Dowd (2009); Gorton and Metrick (2010); Geanakoplos (2010); Anonymous (2010d); Campbell (2011); Munir (2011); Brown (2011);
4	Alignment of executive with corporate targets	Soros (2008); Booth (2009); Herman (2009); Coates, Nugent and Cohen (2009); Farrell (2011); Cua (2011); Quah (2011)	Cornforth (2004); Kalmi, Pendleton and Poutsma (2004); Kaarsemaker and Poutsma, (2006); Cremer (2009); Kaarsemaker, Pendleton and Poutsma (2009); Sharfman (2009); Sharpe (2010); Igan, Mishra and Tressel (2011); Turnbull and Pirson (2011);
5	Training	Masters, (2008); Carnall, (2008)	
6	Prosecution	Ferry (2010); Anonymous (2010a); Brummer (2011); Chang (2011b)	

One of the important findings from the review of academic articles was that the financial crisis has been partly caused by the breakdown of the corporate governance system of financial institutions. For example, academics demanded that the executive directors' power should be put into check and stakeholders, including non-executive directors, should act as devil's advocates or internal 'regulators', constructively criticizing executive directors' decisions and plans (Sharfman, 2009; Sharpe, 2010; Turnbull and Pirson, 2011). Additionally, a number of researchers (Kalmi, Pendleton and Poutsma, 2004; Kaarsemaker and Poutsma, 2006; Kaarsemaker, Pendleton and Poutsma, 2009), suggested that the personal targets of executives could be aligned to that of corporations by introducing plans enabling employees to participate both in the decision making and the company's management. In order to regain confidence and to avoid a similar future crisis (Dudley, 2009), it was proposed to implement a return to basics (Crotty, 2008) and to the core principles of society (Massey, 2010). Moreover, more transparency in and more responsibility by the banking sector and the resolution of the principal-agent problems were also suggested (Borio, 2008; Congleton, 2009; Richter, 2009; Gibbons 2011; ECRC, 2011).

The above findings corroborate with the results from the review of reputable media as commentators argued that management worked against the interests of their shareholders and that management should align its interests to those of the organisation that employed it (Farrell, 2011). Moreover, the Boards of Directors should have increased the time spent on company strategy and in assessing the appropriateness and the soundness of management's proposed strategies (Quah, 2011). Finally, commentators suggested a back to basics, a fairer, a more humanistic and a more ethical financial services sector (Boyle, 2008; Rowley, 2010; Mustafa, 2010; O'Brien, 2011; Farrands, 2011).

Based on the above, it may be argued that financial co-operatives could indeed provide an alternative that could offer what is requested by both academics and professional media. This is because co-operatives are not-for-profit providers of basic financial services, which are transparent and tailor-made to the needs of their members. Moreover, financial co-operatives are run by members (i.e. the

Board of Directors consists only of members) for the benefit of members. This double identity of members, their ability to get elected to the Board of Directors and their ability to vote at the members' Annual General Meeting empower members to an unparalleled level of transparency. Additionally, the not-for-profit nature of co-operatives ensures that there are no "small prints" and that the products are fairly priced, ensuring that the members obtain the best possible deal.

4.4 Financial co-operatives as the industry to collect data

Having explained the reasons for choosing Cyprus as the geographical area, in this section, the choice of credit unions is examined as the industry in which to collect the data for the present study. From all co-operatives, credit unions are chosen for the present study because, as a result of the financial crisis, they are presently under pressure, rendering them the best sector in which to study the practical adherence to co-operative principles. It is an environment where the pressure and the demands of members, the society and the supervisory body are maximized, creating many and antagonising objectives. If indeed credit unions adhere to their founding principles then, this excess pressure will not greatly affect this adherence. If however, credit unions do not adhere to their principles, to the level they proclaim, then the pressure on them will reveal the reality.

4.4.1 Financial co-operatives

It is argued that the financial co-operative model is a proven one as it manages to attract new clients, an area where investor-owned banks seem not to have achieved what was required of them (EACB, 2010; Borzaga and Galera, 2012). Additionally, the 2008 crisis has shown that those claiming that co-operatives were obsolete and that they would disappear in the near future were wrong as more than 100 years had already elapsed since they were founded (CSSDA, 2004; Alexopoulos and Goglio, 2011; Whyman, 2012; Groeneveld, 2015). Even though prior to the financial crisis of 2008 co-operatives were perceived as not very innovative or efficient, they, nevertheless, managed to weather this crisis better than the investor-owned banks (Cabo and Rebelo, 2015). This finding is evidenced by net surpluses for co-operatives when investor-owned banks reported heavy losses in 2011 (Cabo and Rebelo, 2015). Additionally, this evidence shows that co-operatives are a real business alternative to investor-owned banks even to this day (Cabo and Rebelo, 2015). Thus, co-operative financial institutions are not only relevant in today's economic conditions, but they are also important in the economies in which they operate both in Europe and around the world.

4.4.2 Importance of financial co-operatives

Co-operatives are important for the economies of European countries, both within and outside the European Union, the USA and worldwide. Additionally, co-operatives are very important in job creation and in strengthening the economic and social fabric (Jones, 2012). With regards to Europe in particular, co-operative banks are distinctive in the sense that their stakeholder-oriented governance enables them to engage mainly in retail banking, something that results in moderate risks and tight links with the local communities and the real economy (Groeneveld, 2015). Co-operative financial institutions have played an important role in Europe since the 19th century (Stolz and Wedow, 2005; Goddard and Wilson, 2005; Fonteyne, 2007; Hesse and Čihák, 2007; Brannen and Ibrahim, 2010; Talwar, 2011; Ferri, Kalmi and Kerola, 2014). According to EACE (2015), in Europe, 81million members own 4,200 local and regional co-operative banks which, through a network of 67.000 branches, serve 205million customers, and manage €7,5trillion assets, deposits of €3,7trillion and loans of €3,9trillion. In the European Union alone, there are 4,000 regional and local co-operative financial institutions with around 49 million members and 62,000 branches (Alexopoulos and Goglio, 2009). It is worth noting also that the five biggest financial co-operatives in the European Union are within the top 25 financial institutions in respect to equity (Hesse and Čihák, 2007). In five EU countries, co-operatives have more than 40% of the country's number of branches and in some countries they have almost 30% of total assets (Hesse and Čihák, 2007). In Germany, at the end of 2003, the co-operative and savings banks were a very important component for the financing of Small and Medium Enterprises (SMEs) as their combined market share was 52%, while that of the investor-owned banks was only 44% (Stolz and Wedow, 2005). Moreover, in Portugal co-operative saving banks have approximately 50% of the retail banking sector (Crespi, Garcia-Cestona and Salas, 2004). Since its adoption by the European Council in 2003, transnational (within the European Union) co-operatives (called "European Cooperative Societies" or "SCE") can be set up under SCE regulation (Cyprus Government, 2006; Shaw, 2007; Fonteyne and Hardy, 2011; Fici, 2012; Campos and Ávila, 2012). With respect to employment, the International Labour Organization stated that co-operatives are very important in job creation (ILO, 2002). In fact, co-operatives, and the rest of Social Enterprises, account for 6,5% of the total employment in the European Union, totalling 14,5 million jobs (Chaves and Campos, 2012) and hence, contributing to the strengthening of the social fabric (Spear, 2000; Julia- Igual and Melia, 2006; Jones, 2012).

Similarly to financial co-operatives, agricultural co-operatives have been very important, in the European Union, with an average market share of 40%, in 2010, whereas, in some countries (e.g., Finland) it reaches 70% (Bijman et al., 2012a). Additionally, it can be argued that part of the competitiveness, economic success and prosperity of Finland, Sweden and Switzerland is due to the co-operative businesses that are in operation in these countries (Birchall, 2009).

Apart from their European presence, co-operative financial institutions also have a strong presence in the USA, where it can be said that they have existed since the formation of the country (Harter and Krone, 2001). Worldwide, 589 credit unions, co-operative banks and other co-operatives that engaged in the financial sectors of 39 countries had a combined banking income amounting to US$232 billion, in 2013 (Euricse, 2015). Based on the same survey, there are 2,829 co-operatives in 76 countries, with a total turnover of $2,951 billion, in 2013 (Euricse, 2015).

Despite their considerable involvement in the economies around the world, it is estimated that co-operative financial institutions accounted for less than 3% of the total losses associated with the 2008 crisis (Stefancic, 2011). This lends strong support for the claim that co-operatives are indeed both ethical and sustainable providers of financial services (Valor et al., 2007; Boyle, 2008; Simon and Mayo, 2010; EACB, 2010; Ferri, 2012) and that they are capable of pursuing ethical objectives effectively (Simon and Mayo, 2010; Fonteyne and Hardy, 2011).

Despite their importance in the economies around the world, financial co-operatives have both strengths and weaknesses when compared to investor-owned banks. As with all co-operatives, these differences stem principally from the not-for-profit nature of financial co-operatives.

4.4.3 Financial co-operatives Vs investor-owned banks

When co-operatives are evaluated in relation to investor-owned banks, all of the noted differences stem from their different ownerships (Cuevas and Fischer, 2006). According to various researchers (Feinberg and Rahman, 2006; Hesse and Čihák, 2007; Fonteyne, 2007; Valor et al., 2007; Gutiérrez, 2008; Brannen and Ibrahim, 2010) the co-operative organizational model is different from that of investor-owned banks but this does not mean that it is inferior. For example, co-operatives are usually less diversified and place more reliance on a specific profession or on a specific geographical area possibly creating an over-reliance on these professions/areas (Korres, 1999; Alexopoulos and Goglio, 2009, 2011; Stefancic, 2011). Additionally, co-operatives may be slower in taking decisions, potentially causing problems, especially, in cases where speed is of essence, something that could result from the democratic way co-operatives are run (Fonteyne, 2007).

The greatest advantage of co-operatives is that the double identity of members/customers could enhance the control of members over management, restricting opportunistic behaviours from management and encouraging responsible behaviours (Ferri, 2012; Ferri, Kalmi and Kerola, 2014). The double identity of members/customers can also lower the risk of opportunistic behaviour and information asymmetry by members/borrowers (Jones, 2001; Fonteyne, 2007), something that is strengthened even more by the proposition that co-operatives are democratically controlled, usually on the basis of one-person one-vote (Fonteyne, 2007; Osterberg and Nilsson, 2009; Brannen and Ibrahim, 2010). Additionally, this dual relationship of members/customers and their ability to constantly interact with their co-operative, enables the co-operative to gain an in-depth knowledge of the financial position of each of its members (Jones, 2001; Fonteyne, 2007), enabling it to structure its contractual relationships with its members differently and probably more efficiently than investor-owned firms (Harvey and Sykuta, 2005).

A second advantage of financial co-operatives is the indication that the presence of co-operative banks in an economy renders it more stable even for the investor-owned banks (despite the investor-owned banks' arguments against) (Feinberg and Rahman, 2006; Hesse and Čihák, 2007). Additionally, financial co-operatives contribute to the smoothing of the economies in which they operate in times of rapid increases or decreases in the provision of loans (Ferri, Kalmi and Kerola, 2014). Moreover, through the direct competition between financial co-operatives and investor-owned banks, the functioning of the financial markets normalizes, resulting in lower risk of antitrust behaviour on the part of investor-owned banks (Feinberg and Rahman, 2006; Hesse and Čihák, 2007), effectively creating a "competitive yardstick" forcing all organisations to be more honest (Hogeland, 2006, p.69). For example, the presence of co-operative banks in the Italian banking system assists in the rationalization of the interest rates and bank charges and in increasing the banking system's solvency (Gutiérrez, 2008). This argument is strengthened further by evidence that credit unions are slower in increasing their interest rates (Feinberg and Rahman, 2006) and by evidence that co-operatives continue to provide finance even in the time of crises (Ferri, Kalmi and Kerola, 2014). Based on annual figures, for the years 1999-2011, of a sample of 4,352 financial institutions from 12 Euro area countries, statistical proof was found that co-operatives continue to provide finance even during the period of crisis (period 2008-2011), in contrast to investor-owned banks (Ferri, Kalmi and Kerola, 2014). The reason for this is the not-for-profit nature of co-operatives and their focus on long-term lending relationships with their members, enabling them to smooth out the financial position of their members (Ferri, Kalmi and Kerola, 2014).

Additionally, financial co-operatives have built a strong financial position over the years (EACB, 2010). On the other hand, investor-owned banks depend on financial co-operatives for their liquidity as, due to the high level of deposits from their members, financial co-operatives are usually net lenders to investor-owned banks in the interbank market (Karafolas, 2002; Fonteyne, 2007). Finally, financial co-operatives are more stable than investor-owned banks because of the mutual support arrangements among co-operatives (Hesse and Čihák, 2007; EACB, 2010; Alexopoulos and Goglio, 2011; Stefancic, 2011; JeanNoel and Lemzeri, 2012), which reduce transaction costs and distribute associated risks (Stefancic, 2011).

A third advantage of co-operatives is that they enjoy a higher customer loyalty than investor-owned banks. This may be because co-operatives have a social purpose and not a profit maximizing objective (Reed and Reed, 2009). Additionally, co-operatives have an advantage where the buyer of a service is locked in for the longer term or has no access to alternative services (Holmstrom, 1999; Spear, 2000). However, co-operatives' advantages in relation to other forms of organisations exist only, as long as, there is an element of trust involved and especially where there is a great asymmetry of information between the consumer and the organization (Spear, 2000).

Despite their advantages, co-operatives have also disadvantages in relation to investor-owned banks. One of the most important drawbacks is that co-operatives face difficulties when they try to raise additional capital. There are three reasons for this. Firstly, the amounts that members are willing to invest in the co-operative are held back by restrictions on membership, on the transferability/tradability of shares and on their redeemable value (restricting it at par value) (Cook, 1995; Harte, 1997; Chaddad and Cook, 2004; Karafolas, 2005). This means that co-operative members are allowed to withdraw their investment in a co-operative only when they exit from it, and this creates a deterrent as to the maximum amount that each member is willing to invest in his co-operative (Julia-Igual and Melia, 2006). Additionally, the not-for-profit nature of co-operatives limits the incentives of external financiers to invest in co-operatives (Sacchetti and Tortia, 2012) as was the case in 1990, in Sweden, when the co-operative banks demutualized in an attempt to attract enough new capital to overcome the crisis caused by the huge increases in the cost of capital (Hesse and Čihák, 2007). The second reason is that the current legislation restricts the amount co-operatives could raise in the form of capital (Karafolas, 2005; Reed and Reed, 2009) and thirdly, the inability of co-operatives to access external finance as traditionally, any capital (in addition to the initial capital) was financed through retained earnings (Korres, 1999; Chaddad and Cook, 2004; Karafolas, 2005; Birchall and Ketilson, 2009; Fajardo Garcia, 2012; Sacchetti and Tortia, 2012). This tactic however, has prevented co-operatives from gaining expertise in dealing with the money markets (Fonteyne, 2007; Fajardo Garcia, 2012; Cabo and Rebelo, 2014), something that could prove useful in case of crisis. A possible solution to the above problems could be the imposing of stricter regulations on co-operatives but at the same time enabling them to grant bigger and lengthier loans (Jones, 2006). Additionally, changes to the current system could be needed so as to introduce appropriate mechanisms and tools for co-operatives to raise additional capital, e.g., by issuing non-voting shares to co-operative members (Korres, 1999; Fonteyne, 2007), changes that will also boost the market confidence in the entire banking system (Fonteyne, 2007; Gutiérrez, 2008).

The second weakness refers to claims that the organizational model of financial co-operatives results in their "ineffective" running. That is, financial co-operatives are less inclined to reduce their operating expenses. For example, there is evidence that investor-owned banks in Germany, France, Spain and Italy are more effective in managing costs and revenues than co-operative financial institutions (Fonteyne, 2007). On the other hand, empirical studies have found that even though financial co-operatives overall are less profitable than investor-owned banks, the former seem to be more cost effective than investor-owned banks (Gutiérrez, 2008). For example, financial co-operatives maintain a lower average cost per employee (Fonteyne, 2007), possibly due to the volunteer work (Karafolas, 2002; Feinberg and Rahman, 2006) and donations from employers or associations (Feinberg and Rahman, 2006). Additionally, even though Spanish Savings Banks are much smaller than investor-owned banks, nevertheless they are more profitable in respect to profits from banking operations (Crespi, Garcia-Cestona and Salas, 2004). This higher profitability of co-operatives in relation to commercial banks is also true for co-operative banks in Greece as over the period 1994- 1999, they had an average "net interest margin on assets" of 6,2 in relation to just 2,2 of all commercial banks as well as lower expenses as reported by the average "Non-interest expenses on assets" of 1,9 in relation to 2,4 of all commercial banks (Karafolas, 2002). Even more, co-operatives may take less risk than investor-owned banks (Fonteyne, 2007; Stefancic, 2011), something that is in line with the financial co-operatives' not-for-profit nature and their lower pressure to show profits (Hesse and Čihák, 2007). Overall, it can be argued that financial co-operatives must be profitable, but profit itself is not an end but rather the means through which the wealth of the members is enhanced (Stikkers, 2011). Based on the above, the lower reported profits are not the result of bad management or less effective cost management by financial co-operatives, but rather the result of the implementation of the co-operative objectives (Hesse and Čihák, 2007; Alexopoulos and Goglio, 2011). The "ineffectiveness" of the financial co-operative model can also be induced by the fact that financial co-operatives are more asset and human resource intensive than investor-owned banks (Fonteyne, 2007). This means that, as a result of their extended branch network financial co-operatives are more vulnerable in case of reductions in profitability but, at the same time more profitable during normal times (Fonteyne, 2007).

Another drawback is that even though there are laws and established supervisory bodies in each country, currently, there are not enough regulations and supervision of the co-operative financial institutions. That is, the large number of financial co-operatives and especially the large number of small ones causes problems to the governmental agencies, forcing them to rely on apex organizations for the supervision of small financial co-operatives (Cuevas and Fischer, 2006; Fonteyne, 2007). This practice however may cause conflicting roles and it may lower the expected supervision of smaller and more vulnerable (usually rural) financial co-operatives (Cuevas and Fischer, 2006; Fonteyne, 2007). The idea of subjecting the co-operative financial institutions to the same laws and supervision as investor-owned banks is a tested, quick and low cost answer to the current problems (Cuevas and Fischer, 2006). However, it may not be the best solution because of the not-for-profit nature of the co-operative financial institutions (Cuevas and Fischer, 2006). In India, the ineffectiveness of the dual supervision was resolved in 1966 when the supervision of the co-operatives was transferred from the governmental Registrar of Co-operative Societies to the supervision of India's central bank (Talwar, 2011) which, in the case of Cyprus, took place in 2013, following the financial crisis of March 2013 (CSSDA, 2014b; Central Bank of Cyprus, 2015a).

Other limitations of the co-operative financial model include a report prepared, in 2007, by the European Commission, which highlights the risk of co-operatives in Europe gaining more monopoly power than investor-owned banks as a result of barriers of entry (with non-members lacking voting power) and restrictions to compete, such as price-fixing and market-sharing (as a result of co-operatives collaborating amongst them) (Gutiérrez, 2008). However, despite this, there are indications that the growth of their financial co-operatives is prevented by certain laws, such as the capital levels that they must maintain as minimum which are much higher than the equivalent for banks (Goddard and Wilson, 2005).

Having analysed financial co-operatives and compared them to investor-owned banks the analysis will now move to a specific type of financial co-operatives, that of credit unions. This is because as a result of the pressure they face, especially in Cyprus, and their importance in the local economies, credit unions could be a very good co-operative industry in which to collect data for the present study.

4.4.4 Credit unions as the sector to collect data

Having explained the reasons for choosing Cyprus, as the geographical area in which to collect data for the present study (Section 4.2), the choice of financial co-operatives and the reasoning for choosing credit unions will be analysed below. Following the financial crisis of March 2013, in Cyprus, and the resulting deposit haircut, the loss of jobs, the reduction in salaries, but most importantly the fear and the uncertainty that people felt has inevitably put co-operative principles under scrutiny and pressure. At the same time, credit unions suddenly were faced with borrowers who either lost their jobs or were left with less income, causing a tsunami of non-performing loans, which in turn raised the need for additional capital. Consequently, credit unions were thrown in deep and troubled waters, possibly causing them to move their focus on their own survival rather than on the adherence to their founding principles. Additionally, the granting of 99% of shares in credit unions to the state in exchange for €1,5billion, which Troika considered as necessary for their proper recapitalization, has caused even more member and management/employee concerns about the future of credit unions. Thus, as credit unions and their principles are under pressure and scrutiny, they could be the most appropriate co-operative sector in which to study the adherence to co-operative principles. It could be the case that during times when their survival is endangered, credit unions and members consider co-operative principles more of a burden than an asset, turning their attention to more important aspects of their survival. Having explained the reason for choosing credit unions, their importance and their differences from investor-owned banks will be discussed in the sections that follow.

4.4.5 Importance of credit unions

The importance of credit unions in today’s world, especially after the financial crisis of 2008, represents a vibrant and dynamic topic for contemporary inquiry by academics (McKillop and Wilson, 2011). Credit unions are a form of co-operative financial institutions (Davis, 2001; McKillop and Wilson, 2011; World Council of Credit Unions, 2012) and are self-help organisations which aim at attaining the financial and social objectives of their members and those of the wider communities they operate in (McKillop and Wilson, 2011). Furthermore, credit unions are service-oriented co-operatives (Smith, 1984) and they have been characterized as “the purest form of all cooperatives” as they deal exclusively with their members (Taylor, 1971, p.213). Credit unions represent a combination of purchasing with marketing co-operatives as they deal with both lenders and borrowers of funds (Taylor, 1971). In general, the objectives of credit unions include promotion of prudence (encouraging both savings and loans), training of members in managing their financials and member control of credit unions (ABCUL, 2015). Additionally, credit unions are quite unique social institutions (Taylor, 1971), are not-for-profit, member-owned organisations (Smith, 1984; Fonteyne, 2007; McKillop and Wilson, 2011; World Council of Credit Unions, 2012) and are governed on the basis of one-member, one-vote rule (Davis, 2001). As credit unions are co-operatives, their members are able to take part in the running of their credit union and the members of the Board of Directors are elected from within the members in order to represent their common interests (ABCUL, 2015). Credit unions serve their members which must have a common bond, i.e. a social link that pre-existed such as belonging to a specific geographic, industrial or community group (McKillop and Wilson, 2011). What is more, credit unions offer low risk (EACB, 2010), responsible (Valor et al., 2007), simple, transparent products which are adjusted to the local needs (Alexopoulos and Goglio, 2011) and priced in a reasonable and fair way (Jones, 1999; Alexopoulos and Goglio, 2011; ABCUL, 2015). Apart from the benefits they provide to their members (Valor et al., 2007; Sacchetti and Tortia, 2012), their not-for-profit nature enables credit unions to attract and serve people that would not otherwise have access to financial products (Jones, 1999; 2001; ILO, 2002; Ward and McKillop, 2005; Cuevas and Fischer, 2006; Valor et al., 2007; Fonteyne, 2007; Gutiérrez, 2008). There is evidence that credit unions charge around 2% lower interest rates on their loans in comparison to the equivalent of investor-owned banks (Feinberg and Rahman, 2006) and that they offer their services, in rural areas (Jones, 1999; Valor et al., 2007) as well as in urban areas. Furthermore, credit unions grant affordable loans to their members, without loans or capital from non-members, simply by pooling the savings of their members (Taylor, 1971; WCCU, 2012; ABCUL, 2015). These loans, range from education, to building family houses, to growing farms or even starting small businesses (WCCU, 2012). The distribution of the surpluses is done by returning money to members, in proportion of their business with the credit union, by growing the credit union's operations and by introducing/enhancing the services for all members (McKillop and Wilson, 2011), meaning that these amounts remain in local communities and are not sent to unknown shareholders (ABCUL, 2015). In the USA, credit unions almost exclusively serve the household sector (Emmons and Schmid, 2000) whereas in Ireland, credit unions were set up in order to provide employment and to limit the power of money-lenders (Jones, 2001; McCarthy, Farrell and Hewson, 2016).

Worldwide, credit unions have grown from 1,700 in 1932, to 53,685 by 2008, with presence in 97 countries and with almost 186 million members, owning assets of about US$1,2 trillion and loans of about US$847 billion (Brannen and Ibrahim, 2010). In 2009, there were 49,330 credit unions, serving 184 million members in 98 countries managing assets worth of US$1,354 billion (McKillop and Wilson, 2011). By the end of 2013, there were 57,000 credit unions in 103 countries, in 6 continents, serving 208 million members (or 8% of the population) having US$1.4trillion in deposits and shares, US$1.1trillion in loans, US$1.7trillion of assets and US$171billion in reserves (WCCU, 2015). In the USA alone, credit unions have 78 million members (i.e. 28% of the population), managing $440 billion worth of total assets (Goddard and Wilson, 2005). In Ireland, there are 520 credit unions serving 3.6 million members and managing assets of €16billion, savings of €13billion and loans of €4.5billion (McCarthy, Farrell and Hewson, 2016). Having set out the importance of credit unions, their differences in relation to investor-owned banks will follow in the next section.

4.4.6 Credit unions Vs investor-owned banks

The fact that credit unions are owned by and serve their members creates an advantage over investor-owned banks, as the latter must balance the interests of their owners (asking for profit maximizing) with that of their clients (requesting lower loan interest rates and higher deposit rates) (McKillop and Wilson, 2011). Moreover, as credit unions serve a membership base which is uniform due to its common bond, they face fewer problems relating to asymmetry of information than investor-owned banks, enabling the latter to offer better priced financial products (McKillop and Wilson, 2011). Moreover, credit unions have a lower cost of capital than investor-owned banks (Fonteyne, 2007; Brannen and Ibrahim, 2010) because the dividend that is paid back to the members is limited by law and because the value of members' investment in the organization does not increase but is limited to the amount of capital they had initially invested (Fonteyne, 2007).

Additionally, credit unions stabilize the markets they operate in (Feinberg and Rahman, 2006; Hesse and Čihák, 2007) and they compete with investor-owned banks for both deposits and loans at the local level (Emmons and Schmid, 2000; Brannen and Ibrahim, 2010). This could be evidenced by the increase or decrease of the number of members in credit unions following the growth or decrease in investor-owned banks' market share (Emmons and Schmid, 2000). Furthermore, despite the claims that credit unions cannot influence the deposit rate set by investor-owned banks (Amel and Hannan, 1999), there is indirect evidence of the opposite. That is, investor-owned banks frequently complain about (unfair) competition from credit unions and have spent large amounts lobbying the US Congress to hinder the credit union growth (Emmons and Schmid, 2000). Overall, it may be argued that although competition among investor-owned banks and credit unions could potentially drive either one out of business, this has not happen yet (Emmons and Schmid, 2000; Fonteyne and Hardy, 2011). This could indicate that even though credit unions and investor-owned banks directly compete with each other, they are both necessary and important in the financial markets.

The similarities and differences between credit unions and investor-owned banks are summarized in Table 4.3. As observed in this table, even though credit unions offer the whole range of financial products and services that investor-owned banks provide, the two have differences, the most important of which are the higher interest rate on deposits and lower interest rates on loans and the common bond among members. These differences stem from the not-for-profit nature of credit unions as opposed to the for-profit nature of investor-owned banks.

Table 4.3: Comparison of credit unions with investor-owned banks (adapted from WCCU, 2012):

	Credit unions	**Investor-owned banks**
Structure	Not-for-profit, member-owned financial cooperatives funded largely by voluntary member deposits	For-profit institutions owned by stockholders
Clientele	Members share a common bond, such as where they live, work or worship.	Typically serve middle-to-high income clients. No restrictions on clientele.
Governance	Credit union members elect a volunteer board of directors from their membership. Members each have one vote in board elections.	Stockholders vote for a paid board of directors who may not be from the community or use the bank's services. Votes are weighted based on the amount of stock owned.
Earnings	Net income is applied to lower interest on loans, higher interest on savings or new product and service development.	Stockholders receive a pro-rata share of profits.
Products & Services	Full range of financial services.	Full range of financial services, including investment opportunities.
Service Delivery	Main office, shared branching, ATMs, POS devices, PDAs, cell phones, Internet	Main office, shared branching, ATMs, POS devices, PDAs, cell phones, Internet

Following is a discussion of credit unions in the UK because even though they are positioned to meet the needs of financially excluded people, nevertheless, they have failed to do so, to a greater extent, because of the perception in peoples' minds, i.e. that credit unions are for poor people only.

4.4.7 Credit unions in the UK

British credit unions are not-for-profit co-operatives that provide financial services whose ownership and control lies with their members (Jones, 2016). Credit unions are homogenous in the range of products offered (simple loan and saving products), but are different in terms of the socio-economic environment in which they operate, their common bond type, their affiliated trade association, their age and their size (Ward and McKillop, 2005). As opposed to investor-owned banks credit unions can only serve their members (restricted to those having a common bond) (Jones, 2016).

The first credit unions were created by (Irish and Caribbean) immigrants in London (Jones and Ellison, 2011; Jones, 2016), in the 1960s (Jones, 2016). A traditional credit union was described as a community project depending on donations, managed by volunteers, considering any growth or commercial activity as being against its social goals, without any growth prospects, and aiming to support the financially excluded without any market or business orientation (Jones, 1999; 2001; 2004; 2006; Jones and Ellison, 2011; Jones, 2012; 2016), usually with assistance from the local or central government (Jones, 2016). The average British credit union is very small, having around 200 members with the legislation restricting its ability to attract savings and give loans, limiting also, its viability and the usage of common bonds (Jones, 1999; 2001; 2006). These restrictions are created by the maximum amount of credit unions' loans that can be insured by the federal government (Goddard and Wilson, 2005). The work-related credit unions are by far the most advanced among all as they represent 50% of all members and 70% of all assets (Jones, 2001; 2005). Additionally, credit unions are governed by specific legislation and with internal regulation which is provided by the affiliated trade associations, e.g., Association of British Credit Unions (Ward and McKillop, 2005).

Some important legislation improvements took place in 1996, and then in 2002 (Financial Services and Markets Act 2000), but, even in 2005, there was a need for further changes in the legislation so as to allow credit unions to strengthen their deposits and hence their capital (Jones, 2005). Initially, credit unions were regulated by the Credit Union Act 1979 (Jones, 2001) which even though for the first time gave credit unions a legal identity and the means to become safe and secure financial institutions (Jones, 2016), nevertheless, was restrictive as to the ability of credit unions to grant loans and to attract deposits (Jones, 2001). These restrictions aimed at reducing the financial risk and at protecting their liquidity by imposing limits on credit unions' activities, e.g., a maximum limit on loan interest rate, on the dividend that can be paid, on the amount of loan that can be granted and on the amount of deposits that can be obtained from members. Furthermore, it imposed a minimum amount of capital that must be maintained (Ward and McKillop, 2005). Further restrictions were applied on who can qualify as a member, since only people having a common background, such as profession, community or religion can become members (Taylor, 1971; World Council of Credit Unions, 2012; 2015; ABCUL, 2015). The reason for this restriction is that a common background establishes a bond amongst the members of credit unions (Jones, 2001; Sabatini, Modena and Tortia, 2014) and hence, lowers the costs associated with the problems of agency and information asymmetry (Jones, 2001; Ward and McKillop, 2005). Nevertheless, the restrictions on common bond were uplifted in 1996 by the Deregulation (Credit Unions) Order which enabled a much broader geographical area to qualify as common bond and it introduced the work-or-live common bond (Jones and Ellison, 2011).

In 2002, the supervision of credit unions was transferred from the Registry of Friendly Societies to Financial Services Authority (Spear, 2010; Jones and Ellison, 2011). This new law removed the maximum threshold of 5,000 members, allowing a more extended loan repayment period and borrowing from authorized banks and other credit unions (Ward and McKillop, 2005). What is more, it enabled credit unions to charge fees for ancillary services and protected the term 'credit union' (Ward and McKillop, 2005). Additionally, credit unions were enabled, under specific and strict conditions, to borrow money from additional sources (not just natural persons), to pay dividends at different rates, more than once a year and to grant loans to members of up to £500,000 as well as to non-members (FCA, 2015).

This new law was the most important legislative breakthrough for the credit unions, e.g., enabling for the first time the protection of the savings of credit unions' members (Jones and Ellison, 2011). However, despite the changes in the legislation, the high financial exclusion rate that exists and the financial support from the UK government during the 1990s (as part of the fight against deprivation and social inequality) (Jones, 2001), and even though there is little evidence that investor-owned banks are interested in servicing the low income financial market (Jones, 2008), UK credit unions are not perceived as successful (Ward and McKillop, 2005; Jones, 2016). There are at least two indications of this. Firstly, even though credit unions seem to aim at the financially excluded, at the same time, this aim seems to deter additional people from joining credit unions (Fuller, 1998). Secondly, members join a credit union not because of the quality of its services and products but because of its ideology, directly affecting the long-term survival of credit unions (Jones, 2004).

Even though credit unions experienced a growth during the years 1991 to 2014, nevertheless this is not representative of what credit unions can achieve and secondly the restriction in the number of members and assets has a direct effect on the long term survival of credit unions. For example, in the UK credit unions grew from 232,000 members and assets worth £124million, in 1991, to 659,000 members and to £680million of assets by 2000 (Ward and McKillop, 2005). Similarly, in England, Wales and Scotland, at the end of September 2006, there were only 500,000 credit union members having an asset base of £500million and personal loans totalling £360million (Jones, 2008). Additionally, at the end of 2014, in the UK, there were 362 credit unions, with 1,500 employees, serving almost 1.2million members, managing total assets of £1.26billion, loans of £718million and deposits of £1billion (ABCUL, 2015). Moreover, membership of credit unions grows very slowly, e.g., in the West Midlands would grow by an average of only 14 members per annum (Jones, 2004). That is, each credit union would serve on average of 381 members with a penetration of 0.5% of population and with an average of total asset value in the range of £233,000 (Jones, 2004). It is estimated that the penetration of credit unions in the UK is just 2%, rendering them as transitional in terms of their development (McKillop and Wilson, 2011; Jones, 2016).

This low membership basis did not permit the accumulation of assets and savings therefore restricting these credit unions from building up organisational and financial strength (Jones, 2004). Moreover, credit unions could only lend to members that saved for 8 weeks and the loan could only be twice the amount saved, thus restricting access to loans and to loans of higher value (Jones, 2008; 2012), e.g., for the area of East England and Cumbria, the average loan size for 2011 was just £700 (Jones, 2012). What is more, the need for savings in order to obtain a loan not only deterred potential members from saving with the credit unions (Jones, 2008), it also deterred existing members from saving more than the amount they needed to obtain a loan (Jones, 2008; 2012) and it even deterred Board members from keeping their deposits in their credit union (Jones, 2004). Even though credit unions considered that by offering lower loan interest rates, they maximised their impact on financial exclusion, however, the reality is that it is the creation of savings that opens more opportunities, for financially excluded people, to gain access to a cheaper and wider range of financial services (Jones, 2008; Jones and Ellison, 2011), leaving the stigmatisation as poor peoples' banks in the past (Jones and Ellison, 2011). Under these circumstances it was difficult for credit unions to be effective in combating financial exclusion and building the wealth of communities (Jones, 2004). This was further proven by research in which it concluded that only 15%- 20% could meet the management and governance standards to become quality (or new model) credit unions, while another 28% being possibly able to achieve these standards (Jones, 2008).

Moreover, another study revealed that the "current credit union model is not financially sustainable… and that the gap between cost and income needs to be bridged" ABCUL (2013, p12). This finding is very similar to that of Jones (2012), i.e. credit unions depend on money from donors, their expenses are high in relation to their income, their loan to asset ratio (loan book productivity) is low and their loan and deposit interest rates should increase to come closer to that of the market rates. Additionally, to be able to combat financial exclusion, credit unions should be large and financially viable in the long-term (Jones, 1999), as there is evidence that the larger, the older and the more effective a credit union is, the more successful it is, especially in deprived areas (Ward and McKillop, 2005). Moreover, the current credit union model lacks technology, its systems and processes are outdated, its income is non-sufficient to cover the expenses, whilst some credit unions do not comprehend the interdependence of management and governance (Jones, 2004; Jones and Ellison, 2011; Jones, 2012). Additionally, employees/volunteers are sometimes overworked; the Board members lack skills, expertise and knowledge, and they receive almost no mentoring or training (Jones, 2012).

In order to become financially viable, credit unions could enlarge their product range offering higher interest rates (closer to the market rates) on both loans and deposits, something that has been labelled as a new model development (Jones, 2004; 2008; Jones and Ellison, 2011; Jones, 2012; 2016; ABCUL, 2013). Furthermore, to be able to serve their existing and potential members, credit unions could attract skilful management (Jones and Ellison, 2011) and strong, charismatic leadership with the drive to change (Jones, 2004; Jones and Ellison, 2011). Additionally, research has shown that in order to attract more members and savings, credit unions should improve their information technology and procedures, changes that would enhance their perception as trusted financial providers (ABCUL, 2013). For the same reason, the linkage between savings and loans had to be broken (Jones, 2008; Jones and Ellison, 2011). Furthermore, to attract middle income members, credit unions must be secure, ethical and professional organisations, something that is not compatible with the existing model of credit union development (Jones, 2008; Jones and Ellison, 2011). However, this move would create the deposits and operational surpluses needed for credit unions to reach even more financially excluded people (Jones, 2004; 2008; Jones and Ellison, 2011).

Another way forward could be through mergers, as through them bigger and potentially more financially viable (Ward and McKillop, 2005), more professional (Ward and McKillop, 2005; Jones, 2016) and modern credit unions, could be created, enabling collaboration and sharing of back office systems (Jones, 2016). For example, it is noted that due to the mergers, in the 10 years from 2003 to 2013 the number of credit unions had fallen by 42%, whilst membership increased by around 110% (Jones, 2016). Merged credit unions could implement a more liberal traditional social model, incorporating business and commercial practices, for example, employing staff, hiring suitable premises and uplifting their image (Jones, 2012).

4.5 Impact of research context on present research

Based on the discussion on the research intent (Sections 1.3.1, 1.3.2 and 3.4) and the research questions (Section 2.4 and 3.4), the aim of the present study is to investigate the adherence of co-operatives to their founding principles. More specifically, it sets out to examine:

"How is the practical application of the co-operative principles perceived?" and

"How is active democratic participation of members perceived?".

What has triggered this intent is the pressure and scrutiny credit unions are undergoing as a result of the 2008 financial crisis, the consequences of which are still affecting the economy as to this day. Given this pressure, the present study has seized the opportunity to collect data in a period of crisis, with regards to credit unions' adherence to the co-operative principles. To the present study author's knowledge, no other study to date has collected data concerning this issue, during a crisis and this is probably the biggest contribution, of the present study, to the existing literature. In particular, considering the pressure on co-operative principles, the data collected may give a better understanding of what is actually happening in credit unions in times of financial hardship. Moreover, Cyprus, the context in which this research is carried out, may be considered as an ideal geographical location since, in addition to the crisis of 2008, it has also suffered the financial crisis of March 2013, which is even more recent and its effects were even more direct and harsh on local people. Finally, the fact that the author used to be employed by a credit union in Cyprus facilitates the data collection due as he is already familiar with this sector and has the appropriate networks. Hence, considering the above reasons, credit unions have been chosen as the co-operative sector to be researched by the present study.

4.6 Summary

In this Chapter, the reasons behind the author's choice for selecting Cyprus as the specific geographical area and credit unions as the specific type of financial co-operatives were explained. With regards to its geographic location, Cyprus was selected because of the century long presence of co-operatives on the island, their importance for the local economy, as well as the fact that local co-operatives face the same challenges as other co-operatives around the world. A short description of the economy of Cyprus and the effects of the 2008 and March 2013 crises was given in order to better inform the reader about the context in which the data were collected.

Moreover, because of the financial crisis of 2008 and the pressure on all financial providers, credit unions were analysed as the possible industry to be used when collecting data. This is where, most probably, co-operative principles will be under stress and scrutiny. To this effect, the calls for change in the financial industry have been analysed, indicating that co-operative financial organisations and especially, credit unions could be a possible answer to these calls. This is because, both academics and professional media agree that there must be a move back to the basics, to a more transparent and fair financial industry.

The importance of financial co-operatives was assessed, indicating their importance since the 19th century, as ethical and sustainable providers of finance. When compared to investor-owned banks, financial co-operatives seem different, but this is mainly due to their not-for-profit nature. As far as the reasons for choosing credit unions as the specific type of financial co-operatives to collect data for the present study, these include the importance of credit unions as financial co-operatives, the effects of the 2008 and March 2013 crises and the resulting pressure on credit unions and the prior working experience of the author. In the following Chapter, the research approach is discussed in order to provide a research framework for the present study.

Chapter 5: Research methodology

5.1 Introduction

Chapter 4 has focused on the reasons for choosing to carry out the present research in the Cypriot credit union context. In this Chapter, the aim is to identify the research approach and methods which best inform the investigation of the research questions as set in Section 4.5. As the research questions include perceptions, then a qualitative approach is undertaken. Initially, the four paradigms, epistemology, ontology, research design, strategy and the methods are discussed indicating the research framework of the present study and giving details of the methods used. Finally, issues relating to the quality of the research and ethics are addressed.

5.2 Research Strategy

Research Strategy is defined as “the general orientation to the conduct of social research” (Bryman, 2001, p.20). In this case, the qualitative paradigm constitutes the framework for the present research since the aim is to understand the perceptions of those working at and the members of credit unions, seeking to collect valid, real, deep and rich data (Shih, 1998). Within the qualitative paradigm, an interpretivist stance has been taken, following a constructivist ontological position. This is because the researcher aims at interpreting the perceptions of the employees and members regarding the application of the co-operative principles in practice. Within this qualitative paradigm, the present study has used individual interviews with employees of various credit unions, used documents (statistics) as well as focus groups with the members of a specific credit union to collect its data.

5.3 Paradigms

A number of paradigms have been developed and set to define the framework of different kinds of research. This section sets out to examine the characteristics of each of the main paradigms, in order to identify the most appropriate for the present research.

The first paradigm, Positivism, to be examined has been formed by the positivist school of thought. Positivists argue that knowledge is objective and tangible and thus, the researcher must take the role of an observer employing the methods of natural sciences (Cohen, Manion and Morrison, 2000). Positivists rely on experiments and closely controlled conditions to collect data (Lincoln and Denzin, 1998). However, Cohen, Manion and Morrison (2000) argue that Positivism is not helpful in the study of human behaviour because of the high complexity of humans as opposed to the order and regularity that is found in the natural world.

Rejecting the positivist paradigm, critical theorists argue that each researcher influences the outcome of his research and that the outcome is the result of the interaction of the researcher with the particular object of enquiry (Lincoln and Denzin, 1998). Critical theory relies on the use of dialectical methods to collect data (Lincoln and Denzin, 1998). Constructivism concurs with critical theorists to an extent, however this school of thought moves to a different level, arguing that there is more than one reality and that these realities are constantly evolving together with their holder (Lincoln and Denzin, 1998). As in the case of critical theorists, constructivists believe that knowledge is created through the interaction of each participant with the researcher and that data is collected mainly through dialectical/hermeneutical methods (Lincoln and Denzin, 1998). Moreover, constructivists, consider that knowledge does not consist of a number of facts reported, but rather it is, at least, reconstructed during an interview (Mason, 2002). Therefore, understanding and meanings are created or co-produced during the interaction between the researcher and his participants.

Considering the above, it can be said that this research is placed under the constructivist paradigm since it aims at understanding the perceptions of those employed by and the members of credit unions and secondly, the researcher does not believe that he can remain independent of the participants during the interviews and during the analysis of the results. On the contrary, the researcher believes that his background and character act as a filter with respect to how he perceives what the participants have said. Thus, the results are constructed by the interaction of the participants with him. Having identified the paradigm the proposed research may fall under, the following step is to examine its epistemological stance.

5.4 Epistemology

Epistemology deals with the issue of what is or what should be regarded as “acceptable knowledge in a discipline” (Bryman, 2001, p.11). Epistemology is concerned with the bases of knowledge, its forms and nature. That is, how knowledge can be acquired and how it can be communicated among people (Cohen, Manion and Morrison, 2000). In contrast to positivists, anti-positivists (or interpretivists) argue that knowledge is subjective, personal and unique for each person and thus the researcher must become involved with the subjects he is studying in order to learn about them (Cohen, Manion and Morrison, 2000). This means that interpretivism requires social scientists to take hold of the subjective meaning of social action emphasizing the understanding of human behaviour (Bryman, 2001).

With regards to epistemology, this research is considered to adopt an interpretivist stance as it has striven to take hold of the subjective meaning of social action and more specifically to understand people’s perceptions. This is because the researcher believes that knowledge is gained through the interaction of people and the way to achieve this is by discussing with them or by interviewing them.

5.5 Ontology

Moving to the issue of ontology, this is concerned with the essence of the social phenomena researched, that is, whether reality is on the objective side of the spectrum and hence is independent and not influenced by the researcher or whether it is on the subjective side of the spectrum and hence is created through the interaction of the subjects with the researcher (Cohen, Manion and Morrison, 2000). The ontological position of constructionism or constructivism supports that "social phenomena and their meanings are continually being accomplished by social actors" (Bryman, 2001, p.18). In other words, social phenomena are created through social interactions and are constantly changing (Bryman, 2001). Constructivism has also come to mean that researchers are merely stating their version/understanding of the truth rather than the "real" truth (Bryman, 2001). Hence, constructivism aims at examining thoughts, beliefs, meanings and values of the research interest (Shih, 1998).

Based on the above, it can be said that the proposed research takes a constructivist ontological position since it focuses on the version of "reality" that is constructed by the participants and the researcher during the interviews. Thus, this research does not treat "reality" as different and distant from the social actors and the researcher. The researcher is aware that interviewees and interviewers are treated as subjects that mutually construct meaning to the reality around them with the focus being on what that constructed reality is (Silverman, 2001). Having set the epistemological and ontological position of the present research, the analysis moves to identifying the research design that best suits the two research questions that have been formed in Section 4.5.

5.6 Research design

The research design of a study "provides a framework for the collection and analysis of data" (Bryman, 2001, p.29). One of the five research designs used in some of the best known sociology researches (Bryman, 2001) and that has also been adopted in the present study is a case study design, which involves the intensive and detailed study of one sole case, i.e. that of Cypriot credit unions. Case study is defined as an in-depth exploration, a particularization from multiple perspectives, of the complexity and uniqueness of a particular event in a "real life" context (Simons, 2009). Moreover, a case study is an in-depth investigation of an organization, a group, a family or an individual and it represents a general strategy for undertaking research (Woods and Catanzaro, 1988). Finally, a case study design is typical for both qualitative and quantitative analysis and is a broadly accepted research approach (Bryman, 2001; Simons, 2009).

The strength of a case study is its ability to focus intensively on a single situation of interest within its actual context, allowing flexibility, since both the context and the case change over time (Yin, 1999; Simons, 2009). Case studies have been criticized for the subjectivity of the results due to the researcher's involvement (Simons, 2009), as well as for their inappropriateness in generalizing their results. This is due to the fact that they are valid only in the boundaries of the context in which the case takes place (Woods and Catanzaro, 1988; Patton, 1999; Yin, 1999). However, by studying a particular case in depth and comparing it with other cases, one can obtain a more general idea about the issue in hand (Simons, 2009).

To overcome the problems related to the usefulness and validity of the results, it is suggested that the researcher should be transparent regarding the timing of the data collection and the influence on the interpretations of the results which are due to his personality and experiences (Simons, 2009, p.24). Additionally, the researcher should identify and thoroughly test alternative explanations of the results in order to convince that the chosen explanation is the most feasible (Yin, 1999).

For the specific research, a case study design was adopted to collect data from employees, members and documents (statistics), allowing the intensive and detailed study of credit unions in Cyprus. Having identified the research design of the present study adopts, the next Section discusses various aspects of the quality of the research.

5.7 Quality of Research

There are three criteria for good qualitative research: (a) interpretation of subjective meaning that is, the researcher must ensure that his results are grounded on the participants' responses (e.g., through participant validation); (b) description of social context and design and (c) lay knowledge, i.e. the views of all participants should receive equal importance in the results (Popay, Rogers and Williams, 1998).

During interviewee validation the results of the research are checked with the participants in order to ensure that the researcher's understanding was correct (Bryman, 2008). The disadvantages of interviewee validation include possible defensive reactions on the part of the interviewees, possible reluctance of interviewees to express freely their opinion to avoid causing discomfort to the researcher and the potential inability of interviewees to validate the researcher's results due to lack of academic background and/or specialized knowledge (Bryman, 2008).

5.7.1 Reliability

Reliability refers to the extent that the results of the research are consistent with the findings/data (Miles and Huberman, 1994; Bryman, 2001). Moreover "reliability is essentially a synonym for consistency and replicability over time, over instruments and over groups of interviewees" and it deals with accuracy and precision (Cohen, Manion and Morrison, 2000, p.117). As far as qualitative research is concerned, reliability may not be fully achieved because it is carried out in natural settings which constantly change (LeCompte, Preissle and Tesch, 1993). Moreover, the very essence of naturalistic studies lies in the idiosyncrasy and uniqueness of situations, thus a study by definition cannot be replicated "like Heraclitus, who could not step into the same river twice" (LeCompte, Preissle and Tesch, p.332).

Reliability has been achieved in the present research in two ways:

(a) by providing a detailed description of the research methods used and the analysis of the results; and

(b) by triangulating the results using different methods for collecting the data (individual interviews, focus groups and documents (statistics) from the previous supervisory authority – Co-operative Societies Supervision and Development Agency-) (Woods and Catanzaro, 1988).

5.7.2 Replication

Replication refers to the extent to which the measures of the results of the present research could be produced again by some other researcher (Bryman, 2001). As seen above, under the qualitative paradigm, the results are constructed among the participants and the researcher, while in the case of the focus group, by the focus group specifics (i.e. flow of discussion among participants, involvement of moderator, room settings), thus rendering replication very difficult, if not impossible. Hence, rather than looking for replication or generalizability, qualitative data looks for the transferability of results in other, similar cases (LeCompte, Preissle and Tesch, 1993; Kruenger and Casey, 2000; Barbour, 2005; 2007; Doody, Slevin and Taggart, 2013c).

5.7.3 Validity

Validity is the most important measure as it refers to the honesty of the conclusions arrived at whilst carrying out a specific research (Bryman, 2001). Validity refers to whether the researcher observes, identifies and measures what he was supposed to (Woods and Catanzaro, 1988; LeCompte, Preissle and Tesch, 1993). Additionally, internal validity is concerned with whether the conclusions arrived at are 100% based on the research findings (Bryman, 2001).

The quality of the research results can be improved by looking for outliers and for “rival explanations” as if trying to falsify the findings (Miles and Huberman, 1994, pp.271-274). This “forces” the researcher to view data from a different prospective and to test any alternative explanations for the data collected (Miles and Huberman, 1994). Apart from the issue of validity discussed above, it is very important for researchers to validate their data through either triangulation or interviewee validation (Bryman, 2001; Silverman, 2001).

5.7.4 Triangulation and interviewees’ validation

Triangulation is used to enhance the quality of the case study in the sense that the broader the variety of techniques used, the stronger the results of the case study are (Yin, 1999). Triangulation is the employment of more than one source of data or research methods in the study of social phenomena, in order to enhance the confidence in the findings, i.e. to ensure that the findings from the various sources or methods confirm each other (Denzin, 1978; Kimchi, Polivka and Stevenson, 1991; Miles and Huberman; 1994; Cohen, Manion and Morrison, 2000; Bryman, 2001; Silverman, 2001; Bloor et al., 2001; Barbour 2007) or, at least, that they do not contradict each other (Miles and Huberman, 1994). According to Patton (1999), triangulation is founded on the principle that none of the methods can, on their own, produce adequate data to support the findings of the research and that each method can only reveal some of the aspects of the solutions to the problem in question.

Moreover, it is important to use the appropriate methods for triangulation purposes, as the methods should be in the position to complement each other, i.e. cover each other’s drawbacks with the various methods and are not in conflict with each other or are inconsistent (Miles and Huberman, 1994). A combination of interviews and documentation is very common as different kinds of data provide cross-data validity checking (Patton, 1999).

The use of focus groups should be combined with other methods (such as personal interviews in the present study) so that different groups of participants are used with each method (focus groups with members as opposed to individual interviews with credit union employees in the present study), ensuring that the results of one method are confirmed by those of the other method (Lambert and Loiselle, 2008). In such a case, two data sets are coded and analysed separately and are then compared in order to validate the findings (Kimchi, Polivka and Stevenson, 1991). This procedure was also followed in the present study. The combination of methods could be used for data complementary reasons that is, each method provides only partial view of the researched phenomenon and for making up for each method's drawbacks (Kimchi, Polivka and Stevenson, 1991; Barbour, 1998). Shih (1998) agrees with different methods being combined in order to address the research question from different angles, however, he disagrees with these being used to counterbalance the weaknesses of the others. The researcher of the present study believes that the combination of these two methods, using two different groups of participants as well as statistics assists in obtaining data from different angles, i.e. results in a better informed data set.

The problem with combining methods for confirmatory purposes is that the researcher may attach higher importance to the results of one method over the other (Barbour, 1998). Moreover, the major problem with triangulation, as a validity test, is the fact that social interaction is context-bound and thus, it is very difficult to validate it or invalidate it (Silverman, 2001).

As far as organizational documents such as company newsletters, reports, charts, minutes, memos and correspondence are concerned, they could provide useful insight about the organization of interest, however they do not provide the "reality" but instead they should be treated for what they are: "texts written with distinctive purposes in mind, and not as simply reflecting reality" (Bryman and Bell, 2011, p.550). Thus, researchers should compare documents with other sources of data.

In the present study, the researcher has used both structured individual interviews (with employees of various credit unions) and focus groups (with the members of a single credit union), in a case study design aiming to achieve data completion and to triangulate the results of the two methods. Additionally, statistics were obtained from the office of the Commissioner of the Co-operative Societies Supervision and Development Authority (CSSDA), on a sample of twenty credit unions and were used in verifying specific data obtained from both the interviews and the focus groups.

5.7.5 Trustworthiness

Qualitative research is judged based on its trustworthiness (Lincoln and Guba, 1985). Trustworthiness is explained by confirmability, which ensures that the researcher has acted in good faith and his results/conclusions have not been tempered/influenced by him. However, it is very difficult for two scientists to arrive to the same results for four reasons: (a) the results depend on how the method is approached and used in practice –a type of "kaleidoscope"-; (b) each researcher is influenced by his prior experiences and actions thus, his usage of each method will be different; (c) each researcher is influenced by his prior experiences and actions thus, his sample selection, his questions to be asked and his interpretations of the results will be different; and (d) findings constantly change thus, the results will never be the same (Denzin, 1978, pp.292-293).

The researcher of the present study, being aware of the fact that he was interviewing peers/acquaintances, took a number of measures in order to ensure the validity of his results, firstly by stating that he followed a constructivist paradigm. Most importantly though, the author of the present study informs the readers by declaring his prior experience and knowledge of the specific industry and that he relied on the assistance of his ex-colleagues and acquaintances in selecting his sample. The research methods chosen were structured interviews in order to avoid taking too much of the participants' time and to keep the volume of data, to be transcribed, within manageable limits and he chose to interview a high number of credit union employees (thirty), so that the results would represent a wide range of opinions regarding the set research questions. Similarly, three focus group interviews were carried out, consisting of ten members each, one in each of three towns, in order to ensure that a wide range of opinions and perceptions were taken into account. Moreover, the researcher also set out the data of each method separately in order to enhance the validity of the results. During the analysis of data, he used specialised software (N-Vivo) to code and analyse the results and he asked an independent researcher to code part of the interviews and the focus group transcriptions in order to assess the validity of the researcher's coding. Finally, during the interpretation of the results he asked interviewees to validate the results of the interviews. In order to triangulate the results, he used three methods to collect data: he included the dissented opinions and the opinions of the minority, assessed the validity of the results by writing them down and then, at a later stage, he re-examined the data to assess whether any other interpretation was more appropriate. What is more, the researcher kept the data separately from his own interpretations, again allowing the assessment of the results' validity. Despite this attempt, the researcher of the present study recognizes that the results may suffer from the subjective meaning and his personal experiences and views, a risk however, that is common to any qualitative research study. Having explained the issues relating to the quality of research, the next section deals with issues pertaining to ethics.

5.8 Ethical issues

"Being ethical limits the choices we can make in the pursuit of truth. Ethics say that while truth is good, respect for human dignity is better…" (Bulmer and Ocloo, 2010, p.1). Moreover, Principle E of the American Psychological Association (2010, p.4) states: "...respect the dignity and worth of all people, and the rights of individuals to privacy, confidentiality, and self-determination". Ethics are of vital importance since participants' rights are being respected. Hence, one of the primary concerns of the present research was to ensure that ethics have been preserved. The present study has addressed ethical issues through the use of informed consent, access and acceptance, privacy, anonymity and confidentiality, as discussed below. At an initial stage, the researcher of the present study obtained approval by the Research Ethics Committee of the College of Social Sciences, University of Glasgow. He then obtained the consent of the participants in writing (in Greek, the mother tongue of the participants), clearly indicating that participation was entirely voluntary. In addition, the researcher promised participants confidentiality and anonymity of data, a promise that was kept.

5.8.1 Informed consent

According to the British Sociological Association (2006, p.4) “participation in sociological research should be based on the freely given informed consent of those studied”. That is, participants should be informed about the purpose of the research and allowed to participate on a voluntary basis (Bloor et al., 2001; Then et al., 2014). Additionally, and in order to facilitate better comprehension, the information provided should be written in the participant’s language (Bloor et al., 2001; Then et al., 2014). Moreover, since fully informed consent is almost impossible to obtain, the researcher must be aware of his responsibility and, at the same time, his powerful position, thus he should take all necessary steps in order to ensure that his research is sensitive, reflective and moral (Mason, 2002).

In the present study, the researcher provided participants with information on the purpose of the study giving them the choice as to whether to participate or not. Before the commencement of each interview and focus group, each and all participants were asked to read the Plain Language Statement and sign the Consent Form as required by the College of Social Sciences Research Ethics Committee, of the University of Glasgow. Furthermore, at the beginning of each individual and focus group interview, the researcher informed participants about the aim of project and what was expected of them, that there were no right and wrong answers, that their participation was on a voluntary basis and that they could leave at any time. Additionally, the researcher informed the interviewees and focus group participants about the approximate duration of the individual/focus group interview. Finally, the researcher personally promised confidentiality and anonymity, whilst asking the focus group participants to treat the discussion as confidential.

5.8.2 Access and acceptance

Access is crucial and it can be achieved through “closed”/“private” settings (e.g., organizations) asking for permission, to access them, from gatekeepers or; through “open”/“public” settings, in which case access is more or less free (Silverman, 2001, p.56). Moreover, a researcher can obtain “overt” access, by informing the subjects of his research, or “covert” access, in which case subjects are not informed according to (Silverman, 2001, p.56).

As aforementioned (in Section 4.5), the researcher used to work at the senior position for a credit union in Cyprus and hence knew most of the other General Managers, some of their employees and some of the members of the credit union he had worked for. Hence, he did not have to go through gatekeepers. Nevertheless, mainly due to the fear of what the next day (due to the March 2013 crisis) would bring, the researcher had to try hard to find credit union employees and members that were willing to spend personal time to participate in the present study.

5.8.3 Privacy

“Privacy refers to an individual’s right to be free from intrusion or interference by others… An important aspect of privacy is the right to control information about oneself… Privacy is respected if an individual has an opportunity to exercise control over personal information by consenting to, or withholding consent for, the collection, use and/or disclose of information…” (Canada Government, 2010, pp.55, 56). Similarly, “privacy is the control over the extent, timing, and circumstances of sharing oneself (physically, behaviorally, or intellectually) with others” (University of California, 2016). In terms of privacy therefore, the researcher should not publicise information, without the participants’ consent, as it is a matter of ‘secrecy’ (Miles and Huberman, 1994). Privacy can be protected through anonymity, in which case the participants' identity is not revealed, and through confidentiality, where the researcher does not publicise information through which participants can be identified (Cohen, Manion and Morrison, 2000). These two issues are further discussed in the following Section.

5.8.4 Anonymity and Confidentiality

According to Cohen, Manion and Morrison (2000, p.61) "the essence of anonymity is that information provided by participants should in no way reveal their identity". The best way a researcher can achieve anonymity is by refraining from using the names or any other method of identification of his participants (Cohen, Manion and Morrison, 2000). However, the conduct of face-to-face interviews renders anonymity a much more difficult task so, in such a case, the researcher may promise confidentiality (Cohen, Manion and Morrison, 2000). As far as confidentiality is concerned, even though the researcher is aware of the personal details of a participant, the former takes such measures so as to ensure that the participant cannot be identified in any way, in the final report (Cohen, Manion and Morrison, 2000).

The present research has taken many steps in order to retain anonymity and confidentiality. In order to secure the anonymity of the participants, their names were removed and replaced by codes, during the transcription, and for confidentiality any personal or other information that could reveal their identity was either excluded or altered so that once the data from the interviews was processed, nobody, apart from the researcher, was able to identify any of the participants. For example, in one of the focus groups, one pensioner shared a very funny story, with the rest of the group, relating to an incident during his contact with an investor-owned bank. As the story was very vivid, the author of this research changed those details of the story that could unveil the identity of the specific credit union member, thus ensuring that nobody, apart from the specific focus group, could understand who the participant was. The next section describes the specific research instruments that have been used in the actual collection of data for the present study.

5.9 Research methods

For the purposes of collecting data for the present study and for achieving triangulation and validity three research methods have been used. These methods include individual interviews with employees of credit unions, focus groups with members of a specific credit union and statistics obtained from the previous supervisory body, i.e. Co-operative Societies Supervision and Development Authority (CSSDA).

5.9.1 Interviews

Interviews are useful in terms of understanding the participants' point of view and experiences (Doody and Noonan, 2013). They can be distinguished in structured, unstructured or semi-structured interviews. Structured interviews aim at ensuring that all interviewees receive exactly the same cues (Bryman and Bell, 2011) whereas, semi-structured interviews give the sense of "conversation with a purpose" to the interviewee (Burgess, 1984, p.102). Structured interviews enable the standardization of both the questions and the answers (Bryman, 2001, p.107). Thus, when the focus of the interview is to gain an understanding of a specific topic and the researcher wants responses to very specific questions a structured interview is the most appropriate method (Bryman and Bell, 2011). For the purposes of the present study, both individual structured interviews and focus group interviews were prepared and carried out.

5.9.2 Individual interviews

Individual interviews have been criticized the least from all research methods and this is probably due to their widespread usage, focusing on in-depth discussion of a phenomenon (Barbour, 1998). However, problems associated with individual interviews include issues of assumed ability of participants to orally express themselves and to convey their feelings/experiences (Lambert and Loiselle, 2008).

Additionally, in some cases participants may not provide the whole picture to the researcher and, in others, the interviewer may influence the participant's responses and hence, the results (Lambert and Loiselle, 2008).

5.9.3 Individual interviews in practice

Concerning the present research, due to the large number of questions that were to be asked, the researcher decided to use structured interviews so as to accommodate these questions without taking too much of the participants' time. Structured interviews were chosen also in order to reduce the time needed by interviewees to answer all 36 questions and to keep the volume of data to be transcribed within manageable limits. Thus, structured interviews with thirty employees from nine credit unions were carried out, as shown in Table 5.1 below:

Table 5.1: Number of interviewees per credit union per Town:

	Town 1	Town 2	Town 3	Total
Credit union				
#1	10	0	1	**11**
#2		5		**5**
#3		1		**1**
#4			1	**1**
#5	3		1	**4**
#6	1			**1**
#7		5		**5**
#8		1		**1**
#9			1	**1**
Total	**14**	**12**	**4**	**30**

Initially, a formal letter was sent to ten General Managers, whom the researcher already knew, due to his employment at a credit union, and with whom he had at least one telephone conversation prior to sending the letter. This letter informed the General Managers about the purpose of the present research, asking them for their permission to interview some of their credit unions' employees and asking them to encourage their employees to participate in the interviews. Following the initial one, several other follow-up phone calls took place trying to understand the reasons for not replying and for convincing the General Managers to assist the present study. To the researcher's pleasant surprise, a member of the top management of one of these credit unions called the researcher informing him that a relevant email was sent to all of their personnel but only four (including him) expressed interest in taking part in the research. Apart from this incident, and the two General Managers that agreed to be interviewed, the specific tactic did not bring the desired results most probably because of the uncertain and stressful conditions that the financial crisis of March 2013 had caused (with all managers, employees and members fearing of what the next day would bring). To rectify things, the researcher recruited ex-colleagues and acquaintances, asking them to introduce some of their own acquaintances (snowball approach) that were willing to spend about one hour, in total, to take part in an academic research project.

Apart from the "convenience" of the sample approach, the aim was not to have a representative sample, but rather to include people that could contribute to a wider range of opinions and perceptions. The criteria for the sample were based on the participants being current employees of any credit union in Cyprus trying to maintain a balance between men and women, levels of hierarchy, different levels of experience and age groups (as shown in Table 5.2 below).

Table 5.2: Interviewees demographics:

	25-39 years old		**≥40 years old**		**Total**
	5- 9 years' experience	**≥10 years' experience**	**5- 9 years' experience**	**≥10 years' experience**	
Top management:					
Men				4	**4**
Women					
Line manager					
Men				2	**2**
Women				4	**4**
Other employees					
Men	8	1		1	**10**
Women	7	2		1	**10**
Total					
Men	**8**	**1**		**7**	**16**
Women	**7**	**2**		**5**	**14**

The interviews lasted between 18 and 68 minutes as shown in Table 5.3 below:

Table 5.3: Duration of interviews:

	18-19	**20-24**	**25-34**	**35-44**	**45-59**	**60-68**	**Total**
No. of interviewees	1	5	14	5	4	1	30

Once a potential participant was identified, the researcher called him/her and explained the purpose of the research; his/her expected contribution as well as the approximate duration of the interview. The time and place of the interview was arranged at the convenience of the participant. Usually known cafeterias at off-peak hours were selected, but, in some cases, the office of the individual participants was used. In one particular case, a participant had arranged for some of her colleagues to come for the interview at her house arranging with them convenient timeslots. In this case, a specific room in the house was allocated for the interviews so that people coming in and out did not disturb the interview in progress.

The researcher used a question guide that he had developed based on his examination of the literature. This question guide consisted of thirty six (36) questions in total (22 questions for the 1st and 14 questions for the 2nd research question - see Appendix 1). Through these questions the researcher aimed at understanding the perceptions of the employees of various credit unions. Moreover, the questions aimed at evaluating the adherence to each of the seven co-operative principles and consequently at collecting data to answer the two research questions. This question guide was pilot tested with a group of potential participants, who were subsequently disqualified from the actual interviews. The sequence, the wording and the phrasing of some of the questions needed to be adjusted in order to be comprehensible, clear and in a logical order. Before each interview, the participants read the Plain Language Statement and signed the Consent Form as required by the College of Social Sciences Research Ethics Committee, University of Glasgow. During each of the interviews only the researcher and the participant were present and at the end, each participant was given a pack of two local wines to thank them for their effort, time and for contributing to this research. All interviews were voice recorded, after securing each interviewee's consent.

The interviews provided rich data regarding the perceptions of the thirty employees of various credit unions in Cyprus on whether the co-operative principles are applied in practice and whether members are participating in their credit union. In order to ensure that the views of members were taken into consideration and in order to triangulate the results of the employees of credit unions, three focus groups with a total of thirty members of a specific credit union were also carried out.

5.9.4 Interviews: Focus Groups

Focus groups are "a research technique that collects data through group interaction on a topic determined by the researcher", who provides the focus, while the participants provide the data (Morgan, 1996; 1997, p.6). Similarly, focus groups are defined as "carefully planned series of discussions designed to obtain perceptions on a defined area of interest" (Kruenger and Casey, 2009, p.2). Additionally, focus groups are discussions in a group aiming to investigate a specific topic regarding people's experiences and views (Kitzinger, 1994). In general, focus groups are a type of group interview (Morgan, 1996; Doody, Slevin and Taggart, 2013a) and they should be distinguished from other methods and from "naturally occurring group discussions" where nobody acts as a moderator (Morgan, 1996, p.130). Their distinction from other types of interviews lies in the fact that group dynamics and interaction ("safety in numbers") are put into effect in order to gather insights and data on issues that would not have been possible otherwise (Kitzinger, 1994; 1995; Morgan, 1997, p.2; Stewart, Shamdasani and Rook, 2007; Lambert and Loiselle, 2008; Doody, Slevin and Taggart, 2013a; 2013b). The methodology of focus groups enables the researcher to better understand the issue of interest by listening to participants' contradictions, challenges and discussions, while the more views are heard, the more perspectives the researcher gains (Morgan, 1997; Liamputtong, 2011). Moreover, participants in such a case tend to question the reasoning of each other thus; the outcome of the group is more refined and better thought of (Bryman and Bell, 2011). They allow the researcher to interact with the interviewees, to ask questions on the spot following the discussion flow and to identify issues that he had not anticipated in advance (Mason, 2002).

Focus groups work best when the researcher is interested to ascertain the perceptions of people regarding a specific issue (Kruenger and Casey, 2000; 2009). Moreover, they are particularly good in cases where the researcher is interested in participants' opinions, experiences and perspectives (Morgan, 1997; Plummer-D'Amato, 2008a; Then, Rankin and Ali, 2014), attitudes, practices and knowledge (Kitzinger, 1995; Morgan, 1996).

In practice, it is very common for focus groups to be used in combination with other research methods (Barbour, 2005), with the most common being interviews (Morgan, 1996; Barbour, 2007). This is because interviews allow a more in-depth analysis and focus groups a more broad analysis (Morgan, 1996).

What is more, focus groups and individual interviews may produce different results, without entailing that each of these methods provides better results than the other. Rather, each of the two methods is able to tap into different data thus, providing different aspects of the same issue (Morgan, 1997). Hence, each method is better suited for a specific type of research, with focus groups providing "synergistic" benefits to the researcher as they can efficiently gather vast amounts of data that cannot be generated through individual interviews (Kitzinger, 1995; Morgan, 1997; Kamberelis and Dimitriades, 2008, pp.393, 396). Moreover, this method assists participants to unearth their shared experiences which may seem trivial to any individual participant, but which may be important for the group as a whole (Kitzinger, 1995; Kamberelis and Dimitriades, 2008).

The advantages of this method include: (a) fast and somehow cheaper collection of data; (b) the researcher can more easily prompt and ask for clarifications from interviewees rendering the discussion more interactive; (c) the collection of rich and large amounts of data is enabled; (d) flexibility; and (e) results that are easy to understand (Stewart, Shamdasani and Rook, 2007).

However, focus groups are not free from problems and their major criticisms concern their lack of generalizability beyond the specific focus group because of the limitations in the sample size and the way the sample is chosen (not random). Thus, the researcher should only ensure that the sample is a "good approximation of the population" of interest (Stewart, Shamdasani and Rook, 2007, p.45; Bryman and Bell, 2011, p.503). Moreover, participants may respond to questions in a different way than they would behave in real life (e.g., saying what is socially acceptable rather than saying how they actually behaved) (Kruenger and Casey, 2009; Bryman and Bell, 2011). The reliability of the results is also impaired by the fact that the moderator is thought to influence participants' responses (Morgan, 1996; Barbour, 2007; Bryman and Bell, 2011). Additionally, group norms (peer pressure) may prevent somebody from expressing his views, especially if they are different from those of the group, while confidentiality is sacrificed due to the presence of others (Kitzinger, 1994; 1995; Morgan, 1997). However, this cannot render the data collected as invalid as people never operate in a "cultural vacuum" (Kitzinger, 1994, p.117). Another disadvantage includes the pressure on participants to explain themselves to the moderator and the disruptions of the discussion by the moderator (Morgan, 1996). Finally, the discussion does not occur "naturally" as the group exists only because the researcher has convened it (Kitzinger, 1994, p.105; 1995, p.299).

5.9.5 Focus groups: Recruitment

Another concern related to interviews is the selection of interviewees. This is called sampling and can be based on probabilities. When selecting a sample for focus groups, the aim is not to produce a representative sample of the population, but rather to ensure that a diversity of opinions and experiences will be heard (Kitzinger, 1995; Kruenger and Casey, 2000; Barbour, 2005). Non-probability sampling can be convenient or opportunistic depending on the availability of people to be interviewed or, it can be a snowball sampling (Burgess, 1984; Bryman, 2001). Qualitative research has a logic that does not particularly fit well with the use of probability sampling and hence, it is the least used sampling method in qualitative research (Kitzinger, 1995; Morgan, 1997; Mason, 2002; Hair et al., 2011).

Focus group sampling is purposeful as the researcher selects participants based on their knowledge, experience and their ability and willingness to contribute to the topic of interest, i.e. they are "information rich" participants (Stewart and Shamdasani, 1990, p.53; Morgan, 1997, p.17; Patton, 1999; Kruenger and Casey, 2000, pp.2, 6, 26; Horsburgh, 2003; Kruenger and Casey, 2009, p.21; Doody, Slevin and Taggart, 2013a), enabling sufficient diversity of views (Bloor et al., 2001). Therefore, convenience sample is the most popular method for recruiting focus group participants (Stewart and Shamdasani, 1990).

The composition of a focus group's participants is important as this will give rise to the discussion, the interaction and hence, to rich data (Hair et al., 2011; Liamputtong, 2011). A group should be collected so that participants, on the one hand, have enough in common (in order to feel comfortable to discuss) and, on the other hand, their experiences and background will enable the emerging of a range of opinions (Barbour, 2007). Participants can be selected to be homogeneous or heterogeneous (Liamputtong, 2011). Homogeneity refers to common cultural and social background, having something in common , e.g., similar (a) experiences (Liamputtong, 2011), (b) occupation, (c) past usage of a service or programme, (d) age, (e) gender, (f) family characteristics (Kruenger and Casey, 2009). Sampling should have the purpose of the research in mind and participants should share common background (but should not share the same attitudes) so as to provide rich data (Kitzinger, 1995; Barbour, 2005; 2007).

Concerning the issue whether participants should be strangers or acquaintances, the criterion should be whether individuals feel comfortable discussing the topic of interest amongst them (Morgan, 1997) and that the selection of either is in line with the objectives and the nature of the research (Liamputtong, 2011). Pre-existing groups have the advantage of warming up much faster (Bloor et al., 2001;

Liamputtong, 2011). They require less time and effort to be convinced and they are more likely to show up for the focus group session (Bloor et al., 2001). Additionally, in pre-existing groups, the group dynamics tend to encourage members to justify and explain themselves (Bloor et al., 2001) and are more naturally inclined to question and prompt each other, making reference to shared stories and experiences since in such a case, familiarity is the key for the flow of the discussion (Liamputtong, 2011). When the researcher does not want to contrast and compare based on any participants' features, then a single category design is sufficient (Kruenger and Casey, 2009). In qualitative research what is of importance is whether participants generate data that is useful for the purposes of the specific research (Popay, Rogers and Williams, 1998).

5.9.6 Focus groups: Size

Regarding the number of participants in each focus group, a researcher should ensure that there are enough people, so that diversified views are heard but, at the same time, the focus group is small enough so that each participant is comfortable to express his/her views (Onwuegbuzie et al., 2009). Additionally, sample size should be such that permits the researcher to make "meaningful comparisons" (Mason, 2002, p.136). The factors to be considered when deciding the actual focus group size include (a) the purpose of the research, (b) participants' expertise, (c) participants' passion regarding the topic and, (d) the number of questions to be asked (Morgan, 1997; Onwuegbuzie et al., 2009; Kruenger and Casey, 2009; Doody, Slevin and Taggart, 2013a).

The problems associated with larger groups include the boredom of participants that have to compete to speak, the discussion may be too noisy, smaller sub-groups may be created and hence valuable data may be lost (Morgan, 1997; Bloor et al., 2001; Kruenger and Casey, 2009; Liamputtong, 2011). There is little agreement in the literature with regards to the optimal size of focus groups (Tang and Davis, 1995). Different researchers, suggest different ranges of participants in each focus group: three to eight (Barbour, 2007); four to eight (Kitzinger, 1995); six to eight participants (Bloor et al., 2001) whereas, Stewart and Shamdasani (1990) suggest six to twelve participants.

5.9.7 Focus groups: Number of focus groups

With regards to the number of focus groups needed in order to obtain sufficient data, a researcher should continue until saturation of data is achieved, i.e. no new data is collected from the new focus group, taking into account the limited resources regarding personnel, budget and time (Morgan, 1997; Kruenger and Casey, 2000, Bloor et al., 2001; Kruenger and Casey, 2009; Bryman and Bell 2011, Liamputtong, 2011; Then, Rankin and Ali, 2014). Typically, when the level of standardization is lower, a higher number of groups are needed (Morgan, 1996). Usually, the more homogeneous the focus groups are and the simpler the research question is the more topics can be covered during the specified time (Stewart and Shamdasani, 1990).

Opinions on the number of focus groups vary accordingly. Most researchers employ only a few focus groups and some combine the results of focus groups with other methods (Kitzinger, 1995), while others support that two to four focus groups should be carried out in order to identify consistencies in the opinion of participants (Stewart and Shamdasani, 1990; Kruenger and Casey, 2009; Hair et al., 2011). Morgan (1996; 1997) argues that three to six sessions are enough, while Kitzinger (1994) talks about having fewer than four to five groups, since it is a matter of whether the sample can achieve diversity of views.

5.9.8 Focus Groups: Duration

Focus groups normally last around one and a half hours, but they can be shorter or longer depending on the willingness and ability of interviewees to continue the discussion (Liamputtong, 2011), but they may vary from one hour to two hours and a half (Kitzinger, 1995; Morgan, 1997; Bloor et al., 2001; Stewart, Shamdasani and Rook, 2007; Kruenger and Casey, 2009; Liamputtong, 2011). What is of importance is that a researcher should look for signs of fatigue and/or unwillingness of participants to continue the discussion as they may have other obligations, they may become tired or may have run out of new ideas (Liamputtong, 2011). Additionally, a researcher must stick to the timeframe promised, allocating enough time for the group's warming up and for opportunities for deeper discussion of certain issues (Liamputtong, 2011).

5.9.9 Focus groups in practice

When planning for the focus groups, the researcher of the current research initiated some long and sincere talks with key informers, i.e. credit union members whom the researcher knew for many years and were subsequently removed from the pool of potential focus group participants. More specifically, they advised the researcher on the most promising days and times of the week to conduct the focus groups, dates that popular professional events would take place as well as convenient and appropriate places for the interviews. They also informed the researcher about possible problems that could arise with the participants and how to avoid or to overcome them.

The researcher decided that for the specific research, the focus groups' participants should comprise of members of a specific credit union. For this reason a purposive sampling was aimed at, recruiting members that were able and willing to provide data that were useful in answering the research questions. Additionally, participants were recruited so that a wide range of opinions and views could be expressed concerning the perceptions of members regarding the practical application of the co-operative principles and the participation of members in their credit union. Moreover, the participants were homogeneous in the sense that they belonged to the same profession and were members in the same credit union. As the researcher was not interested in differences in perceptions among men and women or differences in the age groups of members, the focus group consisted of people who could contribute to a wider range of perceptions on the research topic.

To assess the possibility of carrying out focus groups with the members of a specific credit union, at the beginning of the recruitment process, the researcher contacted the General Managers of various credit unions by phone asking for their assistance in attracting members to participate in the focus groups. As in the case of individual interviews, even though there was genuine interest to assist in the research, it soon became evident that it would be rather impossible to identify enough members to take part in the focus groups probably because of the uncertain and difficult climate of the days, the changes that took place as a result of the mergers among credit unions and the changes in their organisational chart. Hence, the credit union that the researcher had worked for four years was selected. Some of the researcher's acquaintances and ex-colleagues in four towns were kindly asked to identify potential participants so as to carry out three to four focus groups of around ten people each, in any one town. However, even with the assistance of the researcher's ex-colleagues, soon it became evident that it was not plausible to carry out three to four focus group interviews in any individual town due to the limited number of possible participants. Thus, it was decided to carry out only one focus group per town. Hence, the participants that had already been identified by the researcher's acquaintances and ex-colleagues were considered for the focus group of their town.

Then, the researcher discussed the personal characteristics of each of the potential participants with the informers (the researcher's social acquaintances and ex-colleagues). If the researcher considered that a specific person could add to the discussion by offering a new perspective and that his/her character and personality was compatible with the rest of the group, he asked the informer to contact the specific person. The informer then asked permission from the prospective participants to be contacted by the researcher, by phone, in order to establish rapport and explain to them the nature of the research and what was expected of them. In order to have a good mixture of participants only a couple of participants were chosen from each informer. Potential participants were then contacted and asked whether they could attend the specific focus group at a set date and time. When the researcher phoned each of the prospective participants, he informed them about the reasons the researcher thought that they could significantly contribute to the research. Some retired participants actually expressed gratitude for selecting them and for believing that they could provide useful insights for the specific research. Moreover, when potential participants agreed to participate in the focus groups, the researcher asked them to identify any other potential participants (snowball sampling) (Bloor et al., 2001; Kruenger and Casey, 2009). Finally, apart from the initial telephone discussion, three or four days prior to the focus group, the researcher gave a warm and sincere follow-up call to the participants asking them to confirm their attendance (Kruenger and Casey, 2009). This was followed by a sms (or a third call on a land line to a couple of members that did not have a mobile phone) reminding them about the time and venue of the focus group the following morning.

For the specific research ten participants per focus group were arranged (Stewart and Shamdasani, 1990; Tang and Davis, 1995; Morgan, 1997; Bloor et al., 2001; Rabiee, 2004; Stewart, Shamdasani and Rook, 2007; Kruenger and Casey, 2009; Bryman and Bell, 2011; Hair et al., 2011, p.191; Liamputtong, 2011), but twelve members were invited (i.e. over recruited by 20%) in order to make up for any participants not managing to attend the actual focus group (Popay, Rogers and Williams, 1998; Rabiee, 2004; Barbour, 2007; Kruenger and Casey, 2009).

All participants were members of the same professional credit union and they were of the same profession, hence the participants were homogeneous with regards to these two parameters (Kruenger and Casey, 2009). During the third focus group, the researcher felt that a fourth focus group would not contribute as no new topics were raised by the participants. In all three focus groups, the majority of the participants already knew of each other, either because they had worked at the same location, or because they were acquaintances or they had common friends. This assisted the group interaction as within 10 minutes all participants seemed to feel comfortable to express their opinion and to participate in the discussion. It can be said that the common (professional) background and the similar experiences in dealing with their credit union facilitated the smooth flow of the discussion.

Each of the three focus groups lasted for about one hour and a half to one hour and fifty minutes. More specifically, the first one lasted for one hour and fifty minutes, the second for a little longer than one hour and a half and the third for one hour and forty minutes. During the first focus group, the researcher tried to extend the duration of the focus group beyond the promised duration of one hour and a half, but to the researcher's surprise, fifteen minutes after the promised time, he noticed that participants had already started to collect their belongings and made signals to each other indicating that it was time to leave. Soon after these signals, the researcher realized that the participants were very conscious of the time and thus, he let the discussion reach its end (Liamputtong, 2011). After this incident, the researcher tried to stick to the promised time.

The participants of the three focus groups were both male and female, active and retired members of the specific profession and members of the specific credit union, aged 30 to 70 years old (Table 5.4). Even though the researcher tried to maintain a balance, most participants were retired men probably because they had more leisure time at their disposal. The researcher is aware that the results cannot be generalized to the general population because of the small number of participants and because of the high contextualization of the results (due to the specific formation and direction of discussion in the specific focus groups). However, an informed reader could find comparable situations where the results may be used as a guide or make "logical generalizations to a theoretical understanding of a similar class of phenomena rather than probabilistic generalizations to a population" (Popay, Rogers and Williams, 1998, p.348).

Table 5.4: Age and sex of focus group participants:

	Town 1	**Town 2**	**Town 3**	**Total**
Men				
In profession	2	2	3	7
Retired	4	5	4	13
Women				
In profession	2	2	2	6
Retired	2	1	1	4

With regards to the location, the researcher identified a number of possible venues, with the thoughtful assistance of the key informers. Hence, the focus groups took place in neutral locations, i.e. in the conference room of well-known, reputable cafeterias, in each of the three towns and in areas which were easily accessible by the participants (Barbour, 2007). The conference rooms were isolated from the cafeterias and were visited by the researcher prior to the actual focus group to ensure that the size, tone, character and temperature of the room was such so as to provide the participants with a friendly and comfortable environment (Kruenger and Casey, 2009; Doody, Slevin and Taggart, 2013b; Then, Rankin and Ali, 2014). Additionally, the venues were selected aiming at places with minimum distractions, where the participants could sit in a round or quasi-round table enabling them to have eye contact with each other and with the researcher (Morgan, 1997; Bloor et al., 2001; Then, Rankin and Ali, 2014).

Coffees, teas, juices as well as biscuits were offered to the participants. This was done in order to thank the participants for attending and spending about two hours for the specific research (Bloor et al., 2001; Barbour, 2007; Liamputtong, 2011; Then, Rankin and Ali, 2014). At the end of each focus group, each participant was given a pack of two local wines, to show the gratitude of the researcher as according to Kruenger and Casey (2009, pp.77, 79) "it would be next to impossible to conduct focus groups without incentives". This was a symbolic present and it was clearly stated as such since the researcher considered that a monetary compensation of similar value could have offended the participants. Local wines were suggested by the key informers and judging by the faces of the participants when handed the wines, the suggestion was very good.

Each session was voice recorded using two different voice recorders following the consent of the participants. One ex-colleague/informant per town acted as a research assistant, drawing a sketch of the table with the seat of each participant and took notes of the sequence with which the participants talked in order to assist with the transcription of each focus group. Additionally, to further assist with the transcription of the focus groups' discussion, the researcher asked the participants to mention their names each time they spoke, but as the focus group progressed and they felt more comfortable in expressing their opinion, this was not followed as participants interrupted each other, added comments, completed the phrase of the previous person, murmured in agreement or voiced their disagreement.

Based on the examination of literature and the results from the interviews with the employees of various credit unions, the researcher prepared a discussion plan (topic guide) setting out 24 questions in total (Appendix 3), in a logical sequence, starting from more general and moving to more specific questions. The discussion plan included the questions that the focus groups should try to answer allowing the flexibility to the researcher to ask additional questions as he got the opportunity to do so while he was "thinking on his feet" (Barbour, 2005; 2007, p.85). These questions were pilot tested with a few potential participants (that subsequently were disqualified from the actual focus groups) and the phrasing and sequence of some of the questions were adjusted in order to become clearer and sequenced in a more logical manner.

During the focus groups, the researcher was aware of the need to remain as neutral as possible and to be systematic with the procedures he used. For this reason, following the consent of the participants, he voice recorded all focus groups and tried to engage all participants in order to capture as many views as possible and in the exact wording of the participants used. Moreover, the researcher asked probing questions in order to indicate to the participants that more explanations were needed and prompted in order to encourage all to express their views. In some instances, the researcher summarized the discussion in order to ensure that his understanding was correct, highlighting the different and conflicting views.

Having worked for the specific credit union, for almost four years, the researcher was familiar with some of the issues that could have been raised by the participants, so rapport with them was established very easily and very quickly. Additionally, the researcher was already familiar with the language of the participants thus, gained more time for the questions in the topic guide. Although knowledgeable of the topic, the researcher had never seen things from the members' perspective and could not understand the reasoning for some of their requests, or the way they viewed their membership, thus, he could not be considered as a “native” or an “insider” with regards to membership issues.

Overall, the researcher is confident that the findings are reflections of what was discussed during the focus groups and he ensures that all participants’ views were taken into account and weighed equally. Additionally, the researcher ensures that any dissenting views have been included in the results so as to operate as a checking mechanism. Hence, all results have been included, not omitting any views that were not in line with his own. Additionally, the results of the individual interviews and the focus groups were not combined so that the reader can have access to the results of each of the two methods independently. The researcher also attempted to distinguish between findings (Chapter 6) and his interpretations (Chapter 7) keeping in mind that in qualitative research one can never be completely independent of the data he analyses and that each researcher may interpret the same data differently because of his own background and personality.

5.9.10 Analysis of data

The analysis of the data started right after the transcription of the individual and focus group interviews, as the researcher tried to identify data that would answer the research questions. Both the individual and focus group interviews were voice recorded, with the consent of the participants, and the data collected from each of the two methods was analysed independently using a transcript based analysis (verbatim transcription), i.e. word by word transcription of voice files (Bryman, 2001; Barbour, 2007; Onwuegbuzie et al., 2009). The verbatim transcription of the voice recordings was then imported in N-Vivo. During the verbatim transcription of the focus groups, an audit trail was created (by taking note of the reading of the electronic voice recorder before each participant’s transcription) hence, enabling the researcher to speedily go from the voice recording to the transcription and vice versa.

The first step was to repetitively read the transcription in order to gain a holistic view of the data. Then common concepts, themes and patterns in the transcribed text were identified. This was done to ensure that the concepts that emerged were supported by the available data, thus enhancing the validity of the reported results. During the whole process of going forwards and backwards in the transcribed text, the researcher wrote the research aim on a piece of paper and every now and then he read it in order to remind himself of what he was aiming at. The researcher particularly looked for themes and patterns across the focus groups aiming at understanding the way people perceive the issues that he was interested in, in a group context (Kruenger and Casey, 2009). Additionally, minority or individual opinions were distinguished from group consensus, as well as the opinions that did not match the rest (dissenter views) (Kitzinger, 1995; Onwuegbuzie et al., 2009). When analysing the results, the researcher tried to make sense of the data, excluding irrelevant and additional data, in an attempt to understand the situation (Doody, Slevin and Taggart, 2013c).

During the second step of the data analysis, the concepts retrieved from the focus groups/interviews were used to code the data. That is, the sentences with the same meaning were placed under the same code, irrespectively of the length of these sentences, so as to describe the data accurately. A problem with this kind of coding is that the meaning of each chunk of data can be subjective and thus, care was taken to include those codes that described the data unambiguously and completely. Additionally, to ensure that any dissenting or minority views were not lost in the data, more codes were used than initially intended. For example, when coding the replies of the credit union employees during the individual interviews, regarding the reasons for members' lack of participation, fourteen codes were used in total, six of which consisting of either one or two quotations. While moving forwards and backwards in the data, new ideas were identified which sometimes meant that chunks of data were re-coded under a new code; or these new and wider codes were used as categories where more than one code (concept) could fall under. To deal with the problem of the coder's subjectivity, in December 2013, an independent researcher coded 4 out of the 36 questions (around 11% of the data), using N-Vivo and the Cohen's Kappa (inter-rater reliability) was calculated as 0,78, with 0,75 being considered as very good. The same process was then followed in summer 2014, when the transcription of the focus groups was completed. In the case of focus groups, the independent researcher coded 3 out of the 24 questions (around 12% of the data), using N-Vivo and the Cohen's Kappa (inter-rater reliability) was calculated as 0,73 which is considered as good. Once, the entire interview transcriptions were coded and no new codes could be identified, these were extracted from N-Vivo to MS word.

Then, during the third step, the codes were grouped together based on the relationships among them and each code was allocated to the most relevant and logical categories/themes. The determination of the importance of each idea/category was attempted by assessing the number of interviewees that supported the specific idea. Care was taken to include the ideas and/or contribution of any minorities or individuals that could potentially serve as deviant cases in order to check the validity of the findings. In some cases, these deviant cases seemed to honestly express their views (without fear or without trying to be politically correct or to obey to the group norm) mentioning specific instances that are not so glorious for the credit unions. The high volume of data was difficult to manage at first, but once common themes started to emerge, irrelevant chunks of data were ignored, allowing concentrating on what was important for this research. The whole process of data analysis was to enable the researcher to make sense of the data, to "negotiate his way through the large volume of information" (Doody, Slevin and Taggart, 2013c, p.267) and finally, to bring meaning to the specific data set. This data elimination process led to the final document which the researcher used to write up the results (Chapter 6). During writing up the results, an attempt was made to achieve a balance between a summary of the results and direct quotations of group discussions (Morgan, 1997).

It should be noted that both the individual and focus group interviews were conducted in Greek (mother tongue of both the participants and the researcher) thus, the verbatim transcription, coding and analysis was done in Greek. The parts of the transcriptions that have been included in the report were translated by the researcher into English. This translation was verified and corrected by an independent, to this research, English language instructor. Moreover, some of the parts that were translated in English were translated back to Greek in order to ensure that the translation was correct.

5.9.11 Use of documents (statistics)

The reliability of findings can be enhanced by using sources of data such as statistics (official and unofficial) (Popay, Rogers and Williams, 1998). To this effect, the author of the present study discussed with an officer from the Commissioner of the Co-operative Societies Supervision and Development Agency (CSSDA) the purpose of this study and the possibility of obtaining statistics from them with regards to the number of members attending AGMs, voting at and standing for election for the Board of Directors. Once the officer was satisfied with the explanation given about the use of such statistics, the green light was given to the researcher to send a formal letter requesting them. Following the letter and a couple of more phone calls, the author of the present study had to visit the office of the Commissioner in order to obtain the aforementioned statistics and for a second time in order to obtain some missing data. The statistics were finally handed to the researcher on the 25th September 2013, and provided data on a sample of twenty credit unions including small, medium and large ones covering credit unions that served professional groups and credit unions serving members of a specific geographical area. The statistics related to the three previous elections and AGMs, but in some cases not all data were available for all twenty credit unions, so the researcher used the data available stating each time the number of credit unions for which data were available. These statistics were used in verifying the data obtained from both the interviews (questions 32, 33 and 34) and the focus groups (questions 20 and 21).

5.10 Effect of research methods on research questions

As discussed in the previous Sections (5.2- 5.6) the present study is qualitative and it lies in the constructivist paradigm. This is because the present study is interested in the perceptions of people (employees and members of credit unions) as it is constructed from their interaction with the researcher during the interviews and the focus groups. Based on these and further to Section 4.5 the first research question becomes:

“What are the perceptions regarding the practical application of the co-operative principles?”

Similarly, the second research question becomes:

“What are the perceptions regarding the active democratic participation of members?”

5.11 Summary

In this Chapter the focus was on the issues relating to ontology and epistemology as well as to quality, ethics and methodology of the present study. For the purposes of collecting data for the present research, individual and focus group interviews were used in order to provide a complete picture of the perceptions of employees and members regarding the adherence of credit unions to their principles and the engagement of members with their credit union. Additionally, documents (data on a sample of credit unions) were obtained in order to triangulate part of the findings. The results of the present study will be analysed in the next Chapter and they will be discussed and compared to existing literature in Chapter 7.

Chapter 6: Research results

6.1 Introduction

In Chapter 5 there was a discussion of issues relating to ontology and epistemology as well as to quality, ethics and methodology of the present study. For the purposes of collecting data for the present research, individual and focus group interviews were used in order to provide a completer picture of the perceptions of employees and members regarding the adherence of credit unions to their principles and the engagement of members with their credit union. Additionally, documents (statistics on a sample of credit unions) were obtained in order to triangulate part of the findings. The results of each of these three methods are set out, in this Chapter, separately in order to better inform the reader, enabling the comparison of the data from each method. It should be further noted that firstly, the results of the interviews and secondly, the results of the focus groups are grouped based on each of the seven co-operative principles.

6.2 Structured interviews' results

For the first part of the field work, structured individual interviews with thirty employees from nine credit unions, in three towns, were carried out (see Section 5.9.3). It should be noted that the results obtained from these interviews took place in September 2013, only six months after the deposit haircut and the heightening of the problems in the financial sector, in Cyprus. Hence, the results should be examined considering the restrictions on cash withdrawals and the high insecurity, fear and anger that people felt.

6.2.1 General awareness of co-operative principles

In an attempt to assess credit union employees' awareness of co-operative principles, their replies to Questions 1 and 2 were examined (Appendix 1). Only five of the interviewees replied recalling from their memory the co-operative principles. The rest felt more comfortable choosing from the printed paper that the researcher provided them with. During the few moments of unrecorded conversation most interviewees admitted that they felt uncomfortable trying to recall the co-operative principles and the majority said that even though they used them in their day-to-day work, they could not explain or associate all of them with the ones provided in the printed copy. Overall, the three most popular co-operative principles that were mentioned by the interviewees were the 7th principle "Concern for the community", the 2nd one "Democratic member control" and the 3rd one "Autonomy and independence". It is worth mentioning that ("Equality") was ranked amongst the most popular principles even though it is merely a co-operative value. The interview results for each of the seven principles are presented below.

6.2.2 1st principle: "Voluntary and open membership"

The adherence of credit unions to the 1st co-operative principle, "Voluntary and open membership", was assessed based on credit union employees' responses to Questions 7 and 8 (Appendix 1).

According to the data, credit unions seem to follow this principle as none of the interviewees claimed that someone was forced to become a member. Having said that, some interviewees said that, in some cases, people are "forced" to become members in order to obtain a loan or to be able to co-sign for someone they know:

> "Forced? No. Simply, one must be member in order to be able to obtain a loan", (IR28)

> "…they are forced to become members in a credit union when they need a loan or when they want to offer personal guarantees for the loan of someone else" (IR10)

Nevertheless, some interviewees said that in some cases people are “forced” to become members to be able to vote for someone they know, as indicated by IR9 and IR12, the latter of which said:

> “Unfortunately when we have [Board of Directors’] elections, some members influence others to become members in order to vote for someone…”

Another participant even said that some people had to become members to obtain financing because banks forced them to:

> “Some people were forced to come to us because the banks would not serve them the way they should. This however, does not mean they were forced to become members” (IR21)

With regards to exiting the credit unions, twenty nine out of the thirty interviewees claimed that they were not aware of any member who was forced to do so. Having said that, some interviewees claimed that, in some cases, people exited voluntarily, e.g., in the cases when they felt that their credit union was giving them a hard time: “in the cases where we give a hard time to our members in respect to the pre-conditions asked…” (IR21), or because they found better terms in investor-owned banks: “in some cases some members were struck off, because they found better terms in another bank and they transferred their business to this bank…” (IR19). Another reason presented was to access their “permanent” deposits: “no, apart from some cases where some members were struck off in order to obtain their permanent deposits” (IR14), while IR6 indicated that other members exited as a reaction to a credit union’s decision: “I am aware of some instances where members were struck off as a reaction to the decision of the credit union to take legal action against them…”. In some extreme cases, members were more or less “forced” to exit the credit union because of psychological problems: “members were convinced to be struck off due to their psychological problems” (IR7) rendering them incapable of managing their financial affairs. Finally, IR18 said that in the case a member was sentenced by a court, the Board of Directors of the credit union struck off the specific member from the registry: “yes, in the sense that a member was sentenced by a court or a court decision, that forced the Board of Directors to take a decision and strike the specific member off the members’ registry”.

6.2.3 2nd principle: “Democratic member control”

The 2nd co-operative principle, “Democratic member control”, was examined through credit union employees’ responses to Questions 32, 33, 34, 35 and 36 (Appendix 1).

With regards to the number of members voting at the Board of Directors’ elections, it seems that it is not the majority of members that participate. Eleven interviewees specifically claimed that the participation of members was less than 30%, eight of which specifically indicated that participation was less than 25%. Two other interviewees (IR28 and IR6) said that around 30% of the members voted at the previous Board of Directors’ elections, while IR24 stated that the percentage of members voting at the Board of Directors’ elections was close to zero: “…It was around 0,03% of the members”. However, views varied. Seven interviewees indicated that member participation in the Board of Directors’ elections was more than 50%, as in the case of IR12 who at the same time admitted that the same people served for fifteen years on the Board of Directors: “… the majority votes. Of course there were some elections where the number of candidates was exactly the same with the number of available positions, so there were no elections… we might have had the same people as Board of Directors for 15 years (with each term being for 3 years)”. Ten interviewees did not give an answer stating that they did not know the answer.

With regards to the interest of members to be elected in the Board of Directors seventeen interviewees indicated that there were two or fewer candidates for each available position on the Board of Directors and that sometimes no elections took place as the number of candidates was exactly equal to the number of available positions:

"If I remember correctly, the candidates were double the available positions" (IR30)

More specifically, IR5, IR24 and IR28 said that there were 7-8 candidates for 5 positions:

"more or less there were 7- 8 candidates for 5 positions but in the last 20 years we only had three elections [each term is for three years] because there were only 5 candidates all of them suggested by the political parties" (IR5)

On the other hand, three interviewees claimed that there were more than two candidates for each available position on the Board of Directors:

"There were double or triple candidates for each available position" (IR18)

IR6 specifically said that there were around 15 candidates for 7 positions, while ten participants did not give an answer claiming that they did not know the answer.

Finally, with regards to the number of members that attend the General Meetings the data obtained show that only a minority of members attends. In particular, according to fifteen interviewees the percentage was close to zero:

"Very few [members attend the General Meetings]. Below 1%" (IR28)

Additionally, six interviewees stated that the percentage of members attending the Annual General Meetings (AGM) was less than 25%, e.g., IR16 and IR20 said that it was 5%- 10%:

"It can be around 5%- 10%" (IR20)

"Around 5%" (IR16)

On the other hand, though, there were participants who pointed that attendance was high, without specifying an approximate number or percentage: "all of the seats of the theatre hall where our General Meeting was held were full. I do not know the exact number but there were also some members standing" (IR30), while IR23 said that attendance was around 65%: "… Normally it is the 2/3". Seven interviewees did not provide an answer, claiming that they did not know.

6.2.4 Members' lack of participation

Overall, the data collected indicates that member participation is generally low. The reasons for this low percentage participation could be viewed through the replies provided in Question 28 (Appendix 1). The most popular reasons for the lack of members' participation with their credit union mentioned by the interviewees are the lack of interest and lack of personal benefit (being referenced eleven times):

> "…Generally, the lack of interest" (IR28)
>
> "During the last few years we saw people generally not to be interested…" (IR24)
>
> "People are not interested anymore … because they do not even have a motive to be interested in these things…" (IR12)
>
> "…as soon as a member realizes that he has nothing to gain, that he has no personal benefit, if he attends the General Meeting…" (IR16)
>
> "… maybe if members had a personal benefit when their credit union did well, e.g., a dividend just like investor-owned banks, people would be more active…" (IR9)

Particularly, IR4 said that that someone becomes member of a credit union only if he has something to gain, e.g., to obtain a loan, without being interested in anything else.

A second reason mentioned, indirectly, eight times was members' free riding:

> "The reasons for the distancing of members are not necessarily linked to the credit union itself. I believe that the most common reasons are related to the lack of time on behalf of members", (IR30)

Additionally, IR18 and IR10 pointed out that members are too busy in their everyday lives that they do not have time to get involved with issues concerning their credit union:

> "The fast pace of our lives does not allow many of our members to get involved because they consider this as a luxury they cannot afford" (IR18)

> "Unfortunately, as long as nothing happens, members do not have any interest, as long as they see that they are represented by the Board of Directors, that everything goes well, and runs smoothly…because they feel secured. Why should I go and lose my time…?" (IR22)

Another reason mentioned five times, was that members fear that even if they participate they will not be able to influence things:

> "…causes people to alienate because you see things which you cannot change" (IR29)

> "…our members, just like all of us, are disappointed with the whole situation and knowing that they will not be able, anymore, to influence the decisions through their vote, things are becoming even more difficult" (IR25)

> "…very few members are interested. This is because members feel that they cannot impose their views" (IR15)

Moreover, members would stop participating in their credit union because of their dissatisfaction with the decisions taken by the credit union (referenced five times). For example, IR23 noted that a member will distant himself "when a member is not satisfied, when he is not served properly, when it has needs that are not met by the credit union…", while IR11 said: "a credit union takes some decisions that do not satisfy the member and the member will show his dislike by becoming distant in relation to his credit union".

The fifth reason mentioned four times is the loss of credit union's local culture:

> "…in the past societies were more closed, every credit union operated within its society, its community and people were more interested. Nowadays, the area in which credit unions operate has enlarged to a great extent…" (IR26)

A sixth reason for the lack of members' participation mentioned, by three participants, was the involvement of the political parties:

> "…the involvement of political parties in all sectors of our lives, controlling everything and resulting in the advancement of the least capable is what stops members from participating in their credit union" (IR29)

> "…whenever the political parties were involved we had a high percentage of members attending, while when the political parties were not involved it was difficult for us to find candidates for the Board of Directors' elections" (IR19)

Finally, a reason that was mentioned was the lack of marketing/promotion of credit unions' products. IR29 argued that credit unions may have the same or even better products/services to offer than investor-owned banks, but credit union members consider these of lower quality just because investor-owned banks promote their products intensively: “some younger people… consider that having a credit union [debit/credit] card in their wallet is a bad thing and they would preferred if they had the corresponding card of an investor-owned bank….”.

Concerning the possible ways members can come closer to their credit unions, six responses showed that it is the responsibility of the Board of Directors and the credit union to activate their members:

> “…from the credit union’s side we do not cultivate our members that they must be active” (IR28)

> “…credit union’s response to its members. If the opinion of the member is heard [then the member will remain active]” (IR27)

A seventh response, provided by interviewee IR25, indicated that one way to increase members’ participation in their credit union is by offering small gifts to members at the various events organised: “…we have solved the problem of low member participation, by offering gifts to them. When we had a General Meeting where a gift would be offered, the participation increased a lot”.

6.2.5 3rd principle: “Member economic participation”

As far as the 3rd principle, “Member economic participation”, is concerned, it was examined through credit union employees’ responses to Questions 9 and 10 (Appendix 1).

Sixteen interviewees stated that members will not buy shares to assist in the recapitalization of their credit union unless they are “forced” to do so:

> “The members are negative …complaining for forcing them [to buy shares]” (IR8)

Fourteen interviewees claimed that members will only show limited interest and thus, credit unions' recapitalization will not be achieved:

> "I believe that during this phase … there will be limited response which will not contribute significantly to the recapitalization of credit unions" (IR28)

With respect to the reasons behind members' unwillingness to contribute financially to their credit unions, seventeen responses show that members will not buy shares because of the loss of their trust in the financial system:

> "In the last five months [March to August 2013] there was a very intense scenario, with people withdrawing their deposits and taking them to their homes, resulting in the loss of many deposits" (IR24)

> "… the whole climate is negative. Banks have closed down, there was a deposit haircut and people are affected negatively" (IR8)

Nine interviewees argued that members will not contribute financially because of the bad financial conditions of these days. For example, IR28 said "because people do not have any more available money to invest…", while IR25 stated that "… people are afraid because of the financial crisis…".

6.2.6 4th principle: "Autonomy and independence"

Moving to the assessment of whether credit unions follow the 4th co-operative principle, "Autonomy and independence", this was based on credit union employees' responses to Questions 11- 19 (Appendix 1).

Various concerns were raised by the interviewees:

(a) the possible loss of credit unions' independence following the transfer of 99% of their shares to the Cyprus state, through the Co-operative Central Bank;

(b) the possible loss of credit unions' independence through the issuance and selling of class B' shares (i.e. shares that are entitled to a fixed dividend per year but carry no voting rights) to non-members enabling them to put pressure on credit unions to concentrate only on profits and to ignore their social cause;

(c) the possible demutualization of credit unions following pressure from non-members;

(d) possible shrinkage of credit unions and/or their transformation into investor-owned banks and;

(e) possible loss of the independence of credit unions due to the financial assistance they will need as a result of the high level of non-performing loans.

More specifically, interviewees raised concerns regarding the independence of credit unions following the transfer of 99% of credit unions' shares to the Cyprus state (for €1,5 billion for a period of five years). In this case, seventeen interviewees claimed that the loan was a better alternative than the sale of credit union shares as with a loan, the independence of credit unions would not be jeopardized:

> "A loan because if they [the state] get your shares then you are cancelled as a Board of Directors, as management team and your independence is impaired. I believe that a loan would have been a better solution" (IR30)

> "I would prefer a clear cut loan… because I would not lose my independence…" (IR25)

> "I believe that the loan would have been a better choice because by giving your shares; the government at any moment, can sell the shares to private investors who will take control of credit unions, destroying whatever was build up to now" (IR9)

Seven responses however, showed that the transfer of the shares was a better alternative than the loan because it would be easier for credit unions to buy back their shares than to repay the loan: “between a loan and selling the shares I prefer the shares… I think that with the shares, slowly, slowly we would buy them back…” (IR29); and the 10% return on the loan, would result in higher interest rates for members rather than if the shares were transferred to the government: “… if it was a loan and you had all the time the 10% charge, the cost would have been transferred to the loan interest rates which would have climbed to 14%- 15%…” (IR26).

Moreover, three interviewees agreed that none of the two alternatives is good enough:

> “in both cases, the state has … a saying…it is a knife that cuts both ways because if you consider that credit unions will have to pay around €140-€150 million per year out of their profits when in the good times… the credit unions never had profits over €120- €130 million this means that more measures will be taken and that is for sure” (IR18).

Finally, three interviewees argued that there should have been more alternatives than a loan or transfer of shares only. For example, IR15 suggested the netting off of the amount that the government has owed credit unions for a number of years, with the amount the credit unions owe the government: “… the government owes money to the credit unions. Why didn’t they firstly net off the debt and only then receive the additional amount needed by selling a percentage of the shares to the government? There is something wrong here…”.

A second fear that was expressed by interviewees is related to the possible loss of credit unions’ independence through the issuance and selling of class B’ shares (which would not carry voting rights) to non-members, enabling them to put pressure on credit unions to pursue profits. Twenty eight interviewees claimed that non-members could indeed do this:

> "If this happens, credit unions will lose their principles, hence it would not be a good thing", (IR27)

> "Credit unions will have to maintain their anthropocentric character. If credit unions lose this, they will also become banks and this will make things worse for the ordinary people in the street. People will lose the counterweight that keeps the banks under control" (IR26)

However, one interviewee (IR14) suggested that if credit unions become for-profit, it will be for the benefit of credit unions as they will become more financially viable: "it is positive for credit unions to increase their profits. Even though credit unions declare that they should not make profits, without profits they cannot survive". IR15 further argued that it would not be necessary for non-members to put pressure on the credit union to become for-profit because through their own actions credit unions would become banks, without the interference of anybody else:

> "I think that it will not be necessary for non-members to put pressure; we will become banks on our own, from the laws that our Parliament is voting".

On the other hand, another interviewee (IR5) expressed the opinion that non-members would not be able to put pressure on credit unions as Cypriots have a much better opinion about credit unions than investor-owned banks and as the former have different objectives.

What is interesting is that even though twenty eight interviewees, as aforementioned, feared that the sale of shares to non-members may cause the transformation of their credit union to for-profit, when they were asked directly whether they are in favour or against the possibility of their credit union selling class B' shares to non-members, twenty four of them were in favour most probably because of the financial strengthening of their credit union:

> "If this was said to me previously, I would not have accepted it however, today I wish that people are found either inside or outside the credit unions [to contribute financially to the strengthen of our credit union]" (IR29)

> "They will assist in the recapitalization of credit unions, thus it would be for the best if non-members could buy as well" (IR27)

In addition to the twenty four interviewees that agreed, five expressed their disagreement with non-members buying class B' shares, fearing that this may result in the loss of members' control. For example IR13 said: "it sounds negative to me… From the moment non-members will be allowed to buy shares in the credit unions, the latter will cease to belong to their members", while IR12 claimed that this move would have negative consequences in the future. That is, their credit union would be transformed into an investor-owned bank: "… this will give rise to future problems for the co-operative movement … for sure we will be transformed into an investor-owned bank…" (IR12).

A third issue that was raised by twenty nine interviewees regarding the possible loss of credit unions' independence was through the issuance and selling of class B' shares (which would not carry voting rights) to non-members enabling them to put pressure on credit unions to demutualize:

> "The danger exists and is real. We see it, we know it, we realize it…" (IR29)

> "In the long term this could happen. It would be a negative consequence because as we have already mentioned, we want to keep our [anthropocentric] character" (IR28)

> "…If we get to the point where…credit unions will be transformed into investor-owned banks it will be as if credit unions lost their substance, lost their essence, lost their face" (IR23)

Three interviewees had the opposite view, claiming that if credit unions do sell class B' shares to non-members, it will have a positive effect because credit unions will become financially stronger and will be better managed. IR20 specifically said: "I am positive about this only to the extent that this will enhance the financial position of the credit unions and their ability to issue shares whenever they need a capital injection", while IR15 argued that "if this is for the benefit of the [co-operative] movement and its cleaning up… I believe it is a good effort". Additionally, IR5 said that he did not agree with the above statement arguing that class B' shares could be used to attract capital in credit unions, but could not put pressure on the credit union to demutualize or to be transformed to an investor-owned bank, as the shares would not carry any voting rights.

This last point takes us to a fourth concern raised by interviewees, that is, the possibility of their credit unions shrinking and/or being transformed into investor-owned banks:

> "…at some point in time, in a few years credit unions will cease to exist in the shape and form that we know today… in the long-term credit unions might disappear altogether" (IR30)

> "… I am not optimistic at all. I am not sure whether we will manage to survive, whether we will have the same character as before but I think that we will not have the same market share as we used to have. We will shrink a lot…" (IR29)

> "…they can sell [credit unions] to anybody in order to create a large investor-owned bank… Even if it is called a credit union, it will not be a credit union… it will be an investor-owned bank whatever its name will be" (IR22)

Moreover, there were four interviewees claiming that the future of credit unions in Cyprus would be to merge into a single credit union:

> "It looks as if there will be a move towards the investor-owned banks. I believe that sometime in the future all the credit unions will merge into a single one, which will operate like the [investor-owned] banks, losing its current identity" (IR7)

Finally, the interviewees raised concerns about the possible loss of credit unions' independence as a result of the losses and the financial assistance that they may require due to the high level of non-performing loans. Twelve respondents claimed that the reason for the high percentage of non-performing loans was the borrowers' inability to repay their loans because they borrowed too much:

> "I believe that one of the reasons is the large amount of loans that each member has borrowed which should have been limited" (IR11)

Another reason for the high percentage of non-performing loans (referred to ten times) was the lack of pressure on members to repay their loans:

> "…we gave the message to our members that by taking a loan from a credit union no one would put pressure or force them to repay it, that they would repay as much of the instalment as they wanted, whenever they wanted. We did not chase them…" (IR29)

> "...credit unions were more humanistic and they just let people a bit more time, they did not force them to repay their loan instalments…" (IR26)

Apart from being lenient about the payment of instalments, there was also lack of control as to who obtained loans and the Board of Directors granted loans based on criteria other than the ability of the borrower to repay them (mentioned nine times). For example, IR29 said: "… there was not enough checking about the financial position of the clients… and members did not check on the Board of Directors…", while IR30 pointed out that the Board of Directors granted loans to people that "did not have the ability to repay their loans". What is more, IR19 noted that the high level of non-performing loans was due to "the bad management of every credit union and the uncontrollable granting of loans: acquaintances, relations…"

Finally, what led to the high percentage of non-performing loans (mentioned by five interviewees) was the change in the method used in calculating the non-performing-loans:

> "…until two years ago, a loan was considered as non-performing if it had more than nine instalments delayed. Suddenly, we went to three instalments…" (IR22)

> "… The calculation method for the non-performing loans changes all the time, becoming stricter and stricter…" (IR13)

6.2.7 5th principle: "Education, training and information"

For the purpose of examining the application of the 5th co-operative principle, "Education, training and information", by credit unions the responses to Questions 20-24 (Appendix 1) were considered.

The data gathered indicate that credit unions do not organize training/seminars for their employees or if they do so, this is done very rarely. This view was supported by twenty seven responses.

> "…there are no seminars on these issues. They just gave us the principles and they told us to study them and to follow them…" (IR22)

> "Personally, I attended some seminars, mainly when I started working for a credit union, that is, a few decades ago" (IR19)

> "On co-operative ideology or co-operative principles: no training at all…" (IR10)

> "… I never had one. Whatever I learned; I learned it on the job" (IR8).

On the other hand, five interviewees claimed that credit union employees are trained in the co-operative principles and other co-operative issues indirectly. In other words, they are trained by other employees, on a one-to-one basis or during staff meetings:

> "…in many staff meetings, issues like this, pop-up and are discussed also because of the culture of our organization" (IR24)

> "There are no seminars but there is the everyday interdepartmental [training]" (IR11)

> "It is through indirect ways, not direct ways of learning…" (IR9).

However, when interviewees were asked about the possible usefulness of such co-operative-related training/seminars, twenty eight claimed that such training would indeed be useful:

> "They would be useful especially for the younger and for the older ones that have "departed" [distanced themselves from the co-operative principles]" (IR29)

> "During this period and in order to preserve these principles we must make this [co-operative related training] compulsory. … in order to preserve the credit unions' character" (IR25)

> "For sure training would be useful because it could lead all credit unions to the same direction and to cultivate the co-operative principles…" (IR13).

In particular, IR5 said that such training would be useful because they would wake up the co-operative spirit in employees, who would transfer it to the clients, hence strengthening the whole idea of co-operatives. Even though IR26 claimed that, co-operative related training would be useful, nevertheless, added that from now on, the Central Bank will set the rules: "I think yes [co-operative related training would be useful] but things are changing, we enter in other situations. From now on we will follow the principles of the Central Bank and not the co-operative principles, thus…". Contrary to all other interviewees, IR10 claimed that such training would not be helpful "I think that at the stage that the credit unions reached it will not be useful. As we know the way we operate, I cannot imagine how the training would help us any more".

With regards to whether credit unions provide co-operative-related training for existing and potential members, the data collected indicate that credit unions do not do so. More specifically, twenty six interviewees claimed that credit unions do not organize training for their members or potential members at all or, in case they do, they do so very rarely: "… I do not remember any effort to come closer to our members through a seminar… I do not remember a seminar for the members" (IR15) and; "unfortunately, we never undertook such seminars. The members know our philosophy but we never did this properly. This is one of the mistakes we made" (IR12). On the other hand, there were four interviewees who claimed that the credit unions train their members and their potential members indirectly: "…to some member groups yes, I think, e.g., to pensioners, newly hired members are given such training" (IR11) and; "at least once a year. We organize events… it is not something directly where they explain things but something indirectly" (IR9).

Despite the above responses, twenty nine interviewees claimed that credit unions take measures to inform and attract the new generations, but some doubt can be discerned in their responses as to the adequacy and the effectiveness of these measures. From these, thirteen respondents pointed out that credit unions attract younger generations by offering products that are suitable for their age. For example:

> "We try to contact them through our products. For a younger person to enter a bank, it is certain that it is products he is looking for…" (IR29)

> "Mainly through products targeting the younger generations: student loans, cards, internet cards, internet banking…" (IR28)

> "… in the past_and as far as I know, there were various attempts towards helping setting up new businesses…" (IR26)

> "Some measures that we took 3- 5 years ago targeted the university students…" (IR10).

Seven interviewees highlighted that their credit unions inform younger generations through advertisements and leaflets only:

> "Only through advertisements… Only through leaflets" (IR27)

> "… we have sent to our potential members, leaflets with advertising material…" (IR15)

Moreover, five interviewees indicated that their credit union approached younger generations through their younger employees. For example, IR12 said: "through our younger colleagues because in the closed communities that we live, it is… through the word of mouth…", while IR1 argued that information to potential members is given primarily by the employees in their social circles. Additionally, four interviewees pointed out that credit unions approach new generations by visiting their working place: "visits in their working places… they informed members and potential members…" (IR22).

On the other hand, however, seven interviewees claimed that their credit union did not take any measures to approach younger generations: "Nothing. We still have the same leaflets that we used to have [many years ago]" (IR17) and "I think that we have a little problem because… society believes that credit unions do not offer all the products that the banks do" (IR9). Finally, IR3 pointed out that not only did their credit union not take any measures, but also that some people systematically tried to stop their credit union from informing or attracting the younger generations.

As to whether credit unions informed and guided the Cyprus government on co-operative-related issues, during the negotiations with Troika, nine interviewees claimed that this role was undertaken by the Co-operative Central Bank (and/or the Central Body), seven interviewees said that it was undertaken by the Co-operative Central Bank and the CSSDA Commissioner whereas, seven indicated that all authorities, including the Co-operative Central Bank, the Central Body, the Pancyprian Co-operative Confederation and the Commissioner CSSDA informed and guided the Cyprus government:

> "The co-op Central Bank I think", (IR30)
>
> "I knew that it was the Co-operative Central Bank that informed the Cyprus Central Bank. And the Commissioner to some extent" (IR23)
>
> "If I am not mistaken it was all of Co-operative Central Bank, Central Body, Pancyprian Co-operative Confederation and the Commissioner CSSDA that informed…" (IR26)

However, four interviewees stated that they did not know which co-operative body was responsible for informing and guiding the Cyprus government regarding the co-operative movement. For example, IR6 said that, during the negotiations with Troika, it was a confusing situation because each of the co-operative bodies announced something different and that personally was very sorry to say this. Moreover, two other interviewees claimed that during the negotiations of the government with Troika, nobody took into account what the co-operative movement had to say: "all the efforts to inform about the idea of co-operation were unsuccessful. If you set as your objective to destroy the movement in order to control it and to have political benefits in the future, no matter what the other person tells you…" (IR24).

6.2.8 6th principle: "Co-operation among co-operatives"

To assess whether the credit unions follow the 6th co-operative principle "Co-operation among co-operatives", the responses to Question 25 (Appendix 1) were taken into consideration.

Concerning the mergers among credit unions, twenty three interviewees considered that they will be for the best and only seven interviewees claimed that the mergers will be for the worse. Out of the twenty three responses in favour of the mergers, eight references were made to these as having a positive impact on the professionalism and the organizational structure of the credit unions: "I do not consider them as bad. I agree because for sure they will assist us in working more correctly and… if they are executed in the proper way and the proper operation and the proper organization is achieved then for sure it will be for the best (IR28). Moreover, IR5 agrees with credit unions merging into a single one as this would mean better organizational structure, while IR2 agrees that they will have a positive effect because credit unions will work more professionally. In particular, five references were made to the mergers as a means of strengthening credit unions:

> "… they [credit unions] should be reduced in order to become stronger, to recapitalize and to continue to operate under these difficult financial conditions…" (IR13)
>
> "I believe that it will be for the better if credit unions are modernized, become bigger and stronger entities…" (IR20)
>
> "At least for us, the merger was necessary, due to the age and the number of our members…" (IR16).

Although five interviewees claimed that the mergers will be for the best, some of these were concerned about the fast speed of implementing the mergers fearing that not enough time will be allowed for the assimilation of the different cultures:

> "I believe that the mergers should take place, but I am a bit concerned that they are done in a very fast pace something which may lead to problems in the future…" (IR25);
>
> "The mergers are not bad as long as they will be done on the right basis and time will be given for the assimilation of the different cultures…" (IR24)
>
> "…The mergers could have started from before or be given more time to ease the merger…" (IR11).

The idea that mergers will have a positive impact and that they will assist in the survival of credit unions was raised by four interviewees, e.g., IR12 said: "I believe that the mergers were needed… reducing the number of credit unions, which will become larger and will meet the banks' criteria". In addition, the alignment of credit unions and the reduction of expenses as positive outcomes of the mergers were raised by four interviewees: "It can be for the best because this way the expenses are reduced with the only bad thing being the possibility of layoffs" (IR27), while IR6 said that a result would be that some of their older colleagues will retire, leaving space for the advancement of younger colleagues and newer ideas.

On the other hand, four other respondents showed that the mergers will have a negative impact, leading to the loss of the local identity of new credit unions: "…in some mergers, the area that will be served by the new credit union will be vast and the local character… will be lost" (IR21) and "… in the past the local credit union had a local identity and assisted the local community, but now … gradually will lead to the loss of the social role of credit unions" (IR9). In addition, three interviewees claimed that the mergers will have a negative impact as they may lead to employee layoffs: "…the bad thing is that there will be employee layoffs" (IR22).

6.2.9 7th principle: "Concern for the community"

Considering the 7th co-operative principle, "Concern for the community", it was examined based on credit union employees' responses to Questions 26 and 27 (Appendix 1).

Even though employees said that their credit unions were willing to assist their members to weather the financial crisis, when deciding on the criteria for the closure of branches, they considered the financial criteria as more important than the social ones. More analytically, thirteen interviewees suggested that credit unions could assist their members by adjusting the credit unions' demands to the abilities of their members through the reduction of interest rates and charges, extending repayment periods, restructuring loans, etc.: "basically through the products in order to financially assist the members: the interest rates… the loan instalments, by granting grace periods…, without charging them huge amounts as bank charges" (IR28). IR26 moreover, argued that credit unions could adjust their demands to what borrowers can repay to credit unions: "…I will assess how I will serve my client best, over the next two years, whilst my client is facing difficulties…", while interviewee IR25 suggested a form of long-term sale and leaseback scheme with a re-purchase option to safeguard the homes of the borrowers: "…the members that cannot pay their loan instalments, could choose a sale and leaseback scheme, similar to what exists abroad…". Finally, IR10 recommended the restructuring of non-performing loans: "…loan restructuring would assist a lot".

Furthermore, eleven responses showed that credit unions could assist their members to weather the financial crisis by maintaining their social contribution. For example, IR30 said: "by returning part of their profits… something that will be more direct than the interest rate reductions", whereas, IR28 and IR29 questioned the ability of credit unions to continue their social contribution because of the restrictions imposed on them. In particular, IR28 said: "through social contribution, something that is more difficult today because the money available for these purposes is limited".

On the other hand, in deciding which branches to close down there were thirty two quotations referring to financial criteria and only twenty quotations mentioning social criteria. From the thirty two quotations, twenty showed that the criteria should include the financial viability of each branch:

"…you should have financially viable branches" (IR25)

"… this moment, the criteria should be purely financial… It is how financially viable is the keeping of some branches at their current locations…" (IR29)

"I believe that the most important social criterion is the future survival of the specific credit union... because if there is no financial viability…" (IR11).

Another eight quotations from those in favour claimed that this criterion should depend on whether the premises of a branch are owned or rented, e.g., "Certainly, the financial criterion is whether they are owned or rented as this influences the expenses" (IR30) and "Financial: for sure the rented ones must close down" (IR17). Finally, IR10 argued that the branches that should be kept should be those that are working properly, with experienced and trained personnel, with a history of good management and not of mismanagement or fraud: "I believe that they have to check how the employees are performing their duties, if they know how to do their job well, or if there was mismanagement or fraud or if the employees are trained…".

On the other hand, twenty quotations indicated that the criteria for closing the 160 branches should be socially-related and more specifically regarding the best serving of members. Some interviewees even went a step further suggesting ways to serve members without the credit unions incurring high expenses, for example, the opening of some branches a few days per month or using "branches on wheels": "… there must be a social criterion, e.g., how will the older people be served" (IR26) and "Serving people better …" (IR24). IR21 and IR5 said that the criterion should be the location of the branch, making sure that, even if it is for some days per week, the branches in remote villages should be kept open: "… there should be a branch open even for some days per week" (IR21) and "… in the towns there are a lot of branches from where people can be served but in the rural areas however there should be branches to serve people even if this would mean that they will open only a few days per month" (IR5). Another suggestion provided by IR12 was the use of "branches on wheels" (vehicles transformed into branches): "the solution exists abroad and is the 'branches on wheels'…".

6.3 Interviewees' validation

In order to enhance the credibility of the results, a brief summary was prepared (Appendix 2). This was translated in Greek by the author and it was corrected, by an independent from the specific research English instructor. The summary in Greek was sent, by email, to seventeen (out of the thirty) participants asking them to state whether the researcher's understanding of their perceptions was correct and to provide any corrections they considered necessary. Additionally, the interviewees were asked to comment on why they held these specific perceptions.

All seventeen participants confirmed the researcher's understanding and that these results reflected the reality of what happens today in credit unions, in Cyprus. Five of these seventeen participants analysed the "whys" behind their perceptions with one interviewee (IR15) arguing that the "picture" is such because credit unions have lost their social character, while another participant (IR1) said that the cause for today's situation is the culture that has been cultivated, during all these years, a culture that now is shaking the foundations of the co-operative movement. Three participants (IR7, IR26 and IR29) suggested that these results were due to the uncertainty and fear associated with the financial crisis of March 2013, the demands of Troika and the transfer of the ownership of credit unions to the state, resulting in restrictions on credit unions' autonomy and independence and in members not being able to influence decision-making. One of these three interviewees (IR26) thought that the results indicating that most participants were not optimistic about the future of the co-operative movement in Cyprus contradict the finding that the majority of interviewees were in favour of the mergers between credit unions. The researcher, having confirmed that these findings corroborated the data collected, explained this as being an indication of the uncertainty that employees felt, hoping that the mergers will financially strengthen their credit unions and thus secure their jobs. When this was communicated back to the specific interviewee, the latter agreed that this explanation does make sense.

6.4 Use of documents (statistics)

As indicated in Section 5.9.11, the office of the Commissioner of the Co-operative Societies Supervision and Development Agency (CSSDA) provided data on the last three elections and AGMs on twenty credit unions (from all of credit unions that existed at the given time), including small and large regional credit unions as well as some of the professional ones that operate in all of four provinces under the control of the Cypriot government. The researcher of the present study used these data to calculate relevant statistics for each of Questions 32, 33 and 34 (Appendix 1). It is noted here that, in some cases, not all data were available for all twenty credit unions of the sample. Hence, the researcher used the data that was given, clearly indicating the number of credit unions on which data was available.

In examination of the statistics, it can be seen that the average member participation in the last three Board of Directors' elections was only 7%, with three out of twelve credit unions having participation of 1% and two having participation of 3%. That is, five out of twelve credit unions (or 42% of the available data in the sample) had participation lower than 3% of their registered members.

With regards to the number of candidates in relation to the available positions on the Board of Directors, it seems that there are fewer than two candidates for each available position. This is because, based on the data on nineteen credit unions, the average number of candidates, in the previous three elections, was only 1,5 times more for each available position, with four credit unions having just as many candidates as available positions and hence, no elections took place. In only two credit unions there were more than 2 candidates per position, one with 2,6 candidates per position and the other with 2,8 candidates per position.

Finally, with regards to the percentage of members attending the AGMs, according to the data on seventeen credit unions, the average percentage of members attending the last three AGMs of their credit union was just 8%. Nine of the seventeen credit unions had less than 4% attendance (four credit unions having an average of less than or equal to 1% and another five credit unions with an average between 2% and 4%), whereas only two credit unions exceeded 20% (one with 23% and the other with 30% attendance).

6.5 Focus Groups' results

For the last part of the field work, focus group interviews with thirty members of a specific credit union (case study design) were carried out (Section 5.9.9), aiming partly at achieving data completeness and triangulation. The topics that were researched were drawn from the literature review, the structured individual interviews' results and the statistics obtained from the office of the Commissioner of the Co-operatives Supervision and Development Authority.

The focus group interviews were held in March 2014 and aimed at understanding the perceptions of members regarding the practical application of co-operative principles and the reasons for the (lack of) participation of members with their credit union. The results from the focus groups for each of the seven co-operative principles are provided below.

6.5.1 1st principle: Voluntary and Open Membership

The examination of the adherence of the specific credit union, under study, to the 1st co-operative principle, was based on the relevant participants' responses to Question 8 (Appendix 3). Some participants argued that this principle is followed and that it will continue to be followed, e.g., "FGL10: I believe that it will not be affected". However, other participants were much more sceptical with some arguing that, up until now, this principle has been followed, but from the moment the state starts controlling their credit union, this principle will no longer be applied. This is because, it will be the government that will decide who is going to become a member: "FGL11: … However, when the shares will be transferred to the government, it will be the government that will have the upper hand and thus it will be the government that will decide who will register as a member and who will unregister". Additionally, participants argued that even if the state does not influence who will become a member, people will not want to become members anyway, as they will have no control over their credit union:

> "FGP6: It will be directly affected. When your opinion only counts to 1%, then what is the reason to be a volunteer? This will disappear one way or another.
>
> FGP3: We fully agree. We agree.
>
> FGP1: We agree"

6.5.2 2nd principle: "Democratic member control"

The adherence of credit unions to the 2nd co-operative principle was assessed based on the specific credit union members' responses to Questions 15-21 (Appendix 3).

Firstly, participants do not attend the General Meetings, setting out a number of excuses for not attending, i.e. free riding, lack of time, having other things to do, laziness, lack of interest in the subjects discussed, member indifference, members trusting their representatives and General Meetings being held far away from members' homes:

> "FGN3: No, we do not attend the General Meetings
>
> FGN3: They will go through the balance sheet. There is no reason why we should attend
>
> FGN11: It takes 3- 4 hours. It takes too long. We do not have time for this."
>
> "FGP1: We are occupied
>
> FGP10: Our indifference
>
> FGP3: We trust the people we elected [on the Board of Directors]
>
> FGP11: The General Meetings are held far away from where we live."

However, members were willing to stop free riding and actually engage in their credit union, in cases where they felt that their personal interests were hurt:

> "FGP11: "Up until now we felt that our representatives in the Board of Directors were worthy and thus we felt secured. [In the past] We did not feel that we had to protest, to shout, because everything was fine. Now, it seems that we must start attending."

Other reasons mentioned by participants included the lack of volunteerism and of younger generations' interest in the founding ideas of the co-operative movement:

> "FGL7: …there is a phenomenon that keeps expanding. When volunteerism faces capitalism, capitalism and the sense of personal gain always win. Credit unions in Cyprus depend a lot on volunteers and solidarity. These ideas are fading away among young people. We

> are so much into personal benefit. This is why I see no future for credit unions in Cyprus.
>
> FGL1: A few years ago the motto "one for all and all for one" was adhered to with religious devotion.
>
> FGL8: Now, nothing.
>
> FGL1: 30- 40 years ago people in the villages only had their church and their credit union."

With regards to whether members are active in relation to their credit union issues, participants said that their activity was restricted to being clients only as they did not attend the General Meetings often. Additionally, participants argued that they tried to encourage non-members to become members at their credit union:

> "FGN11: We are active in the sense that we are clients. That means that we do not often attend the General Meetings. Only as clients.
>
> FGN4: This means that the members are not as active as they should have been."

Moreover, members argued that in the past, when their credit union 'belonged' to them, they were more active, but at the end they confessed that they have always been inactive and that they only went to vote at the elections for the Board of Directors. This is of course if someone they knew asked them to do so.

> "FGL10: When our own credit union existed we were active. Now we are not.
>
> FGL2: "But even when it existed, we cannot say that all of us were active.
>
> FGL5: But we only went at the elections."

> "FGP1: We used to be [active]. Now we are not.
>
> Researcher: That means that in the past you were active?
>
> FGP1: In comparison with now, yes.
>
> FGP5: No, no [even then] we were not active.
>
> FGP1: Even if you only go to vote, you are active. This is because you vote for the Board of Directors."

Concerning the incentives that the credit union should provide to its members in order to activate them, participants said that, as members, they would like to meet with management more often and to be updated in a more casual way, e.g., over a cup of coffee and in simple, layman terms:

> "FGN2: An update. We, as ordinary members, would like to have an update every now and then in simple language. An "off the records" updating, over a cup of coffee.
>
> FGN4: [The board] could ask the members to attend a more face to face meeting in smaller groups."

Some participants said that the most important incentive is to be heard:

> "FGP3: the motive for me is for my voice to be heard".

Members said that they would take part in these kinds of meetings as long as management actually spent time to make it happen and personally talked to members in order to engage with them:

> "FGN4: … You could personally phone 40 members, personally, and invite them. You should communicate with the members in order for them to hear

your voice. You oblige him a great more deal if you call him… Members like to have personal contact….”

Finally, some participants asked for financial motives, e.g., lower interest rates on loans, higher interest rates on deposits and easier granting of loans in order to make members more active:

“FGP8: Honestly? Loans with lower interest rates.

FGP1: The lower the interest rate, the better.”

Secondly, considering the percentage of members that participate in the Board of Directors’ elections, respondents gave a wide range of replies ranging from 18% to 80%, with most participants considering that only a 30%- 40% of members actually vote during the Board of Directors’ elections. Some participants argued that, as members, they had an obligation to attend the voting, but they voted only when someone they knew was running as a candidate: “FGL1: We had personal contact with the candidates, e.g., the existing Board member Mr X. We had personal contact and we were obliged [to vote] but above all we had personal contact with the members of the Board”. Finally, a participant said that he did not know the percentage of members that voted simply because he did not vote: “FGN12: We do not know because we do not attend [the elections]”.

Thirdly, it was highlighted that not a lot of members are interested in getting elected on the Board of Directors as only 1- 2 candidates run for each available position: “FGN11: 2,5 candidates for each available position”. The reason for this is the fact that the political parties agree upon the candidates they will support and thus very few candidates run independently. From what participants said, it seems that the existing Board Members have a clear advantage in relation to newcomers and that candidates backed up by the political parties have an advantage in relation to independent candidates. The result is that newcomers and independent candidates run the risk of being humiliated and thus, not many stand as candidates.

"FGP8: The reason behind the low number of candidates is the fact that the political parties agreed on the candidates they would support thus reducing, to the minimum, the number of independent candidates.

FGP1: This is correct.

FGP8: They [the independent candidates] did not stand a chance on their own."

"FGL10: But you had to risk in order to get elected.

FGL1: To risk being humiliated you mean."

Additionally, it seems that the existing Board members had a clear advantage over newcomers as they knew "all the tricks of the trade" and because existing Board members had already spent considerable amount of time visiting the working places and talking with their colleagues:

"FGL12: Everyone managed to get something out of the Board members. Everything through a telephone call.

FGL1: Thus, this put off new candidates to run for the elections because the existing Board members were already there and performed their duties very well.

FGL10: No, no. If you wanted. If you acted in the same way as they did, i.e. if you went to the working premises, to meet with your colleagues, to talk to them, to devote time and effort you would have been elected. You have never devoted time. How could you get elected? Afterwards, you would complain that you did not get elected. How did you expect to be elected? You never did anything towards this, how did you expect to be elected?"

6.5.3 3rd principle: Member Economic Participation

As far as the adherence of the specific credit union to the 3rd co-operative principle, "Voluntary and Open Membership", is concerned, it was examined through the responses retrieved from Question 8 (Appendix 3).

Based on the members' responses, it seems that members were reluctant to financially contribute to their credit union. In particular, some participants argued that since members have only 1% ownership in their credit union, it should not be them that should have the responsibility of contributing: "FGN6: But how will the members contribute? We only have 1% [ownership]."

Other participants were worried about this sudden possibility to have to financially contribute to their credit union, with one of them asking whether there is such a plan and another proposing that their credit union should attract deposits and not ask its members for financial contribution:

> "FGN4: This is the target.
>
> FGN3: Is there such a possibility?
>
> FGN12: [Our credit union] should attract deposits."

Some other participants did not even consider a possibility to contribute financially for the strengthening of their credit union. A lively conversation started as a result of this question and, in the end, participants not only stated that they would not financially contribute, but they also questioned their credit union's reasoning for not stopping to collect their "permanent" deposits every month:

> "FGP6: We will not do this [to contribute financially to their credit union].
>
> FGP1: But when will this happen?

FGP2: Every month, they withhold an amount from my account ["permanent" deposit]. Why should they deduct this amount from me?

FGP5: Indeed. They must stop."

6.5.4 4th principle: "Autonomy and independence"

Moving to the examination on the adherence of the specific credit union to the 4th co-operative principle, "Autonomy and independence", this was done based on the participants' replies to Questions 6, 7, and 9 and through the relevant participants' responses to Question 8 (Appendix 3).

The most important issue that participants raised is that now members trust their credit union less than before because of its inter-dependence on all the other credit unions and the Co-operative Central Bank:

"FGL7: I do not trust it [my credit union] because it belongs to the Co-operative Central Bank as all other credit unions, some of which are not reliable at all...

FGL3: … at this moment, personally, I do not trust credit unions… Thus, clearly we are in the footpath of the bank that went bankrupt and closed down…"

Some participants though, said that their trust in their credit union may be regained sometime in the future: "FGN11: I would not dare to say that we trust more our credit union. Unfortunately, this is the truth. However, we do want to believe that it could regain our trust. I am optimistic… However, we want to believe that things will change for the sake of our children" and especially, if the wrongdoers that brought the credit unions to this situation are punished:

"FGN9: I believe that to regain our trust all of these people that obtained such large loans…

> FGN5: To pay for them. To take them to prison.
>
> FGN9: They are wealthy. Most of them have the money, they have property. The state should sell their property in order to pay for the loans they got."

What is more, following the transfer of 99% of the ownership of credit unions to the state, participants were sceptical about their role as members since they would have no say in the running of their credit union, i.e. they are not able to influence it (the interest rates, the pricing policy etc.). This is because the state has become almost the sole owner and takes all the decisions and members' shares have been transferred to holding companies which own just 1% in the credit union. Hence, members control the holding companies only:

> "FGN4: Since the state owns 99% of the shares of the credit unions, they control them. The members cannot do anything. Thus, it [the credit union] will be absolutely controlled by the government...
>
> FGN3: Practically nothing. We will have no power as members…"
>
> "FGP6: I believe that it will be affected and for sure in a negative way...
>
> FGP3: This government will serve its voters and the next government will serve its own voters. Let's put it this way.
>
> FGP6: … Our influence will be very limited. We might be able to vote but our representative will only be a marionette since he will not be able to influence decision-making."

Additionally, participants felt that they will never get their credit union back as they will never be able to repay the €1,5 billion (plus 10% a year interest) to the state. Credit unions will remain a state bank: "FGL12: …. I believe that there are no credit unions and there is no Co-operative Central Bank. It is a state bank. We are owned by the government and we will never manage to get our credit unions back... First of all, where will the credit unions find the €1,5 billion plus 10% interest per annum to pay back? Where will credit unions find €2 billion in 5 years?". Furthermore, participants argued that only if effective corporate governance rules are implemented credit unions will grow under the state's ownership: "FGP7: If, finally, in this country, corporate governance rules are put into effect (even if the government is in control), maybe it will be for the best as there will not be any favourable treatment for some members. If supervision is done properly then things will become fairer and thus, the new situation will be preferable". This is because history has proven that the state cannot manage well the organisations it owns: "FGP7: I believe that the state… proved that it cannot manage the semi-governmental organisations and the fact that it has taken gradually over credit unions as well, until we are able to stand on our own feet, makes me feel uncomfortable… The political parties hire people without any plan and this will cause the collapse of these organisations."

Concerning the impact of transferring the 99% of the shares to the state on the credit union employees, some participants considered that the employees have become slower in their work as there seems to be something that distracts them. In particular, participants guessed that this was the result of the changes in the employees' work place and the result of uncertainty that exists with regards to the future of credit unions:

> "FGN11: I have noticed that employees are slower, not because they want to, but because something is holding them back and instead of needing an hour to finish a task it takes them a whole day. Not because they want to, but because something is holding them back.
>
> FGN2: They must be affected from all the changes that are taking place.
>
> FGN5: There is depression in all layers of our society. Thus, it is only reasonable that credit union employees are affected as well.
>
> FGN4: For sure there will be a stage where your productivity will fall.

FGN2: …. Most probably the employees feel uncertain about their future and the possibility that some day

FGN4: … they may lose their job."

"FGL4: It is normal for credit union employees to feel insecure as well, as they do not know how this thing will end."

On the other hand, other participants did not notice any change as they considered that credit union employees were as willing to serve the members as always: "FGN12: No. I consider that the credit union employees operate in the same way as they always did. Always willing to serve you."

6.5.5 5th principle: "Education, training and information"

Questions 10 and 11 (Appendix 3), in the focus group interviews, retrieved replies on the adherence of the specific credit union to the 5th co-operative principle, "Education, training and information" and are displayed below.

Respondents considered that their credit union should have already taken measures to inform and attract younger generations since most members were older:

"FGN4: It has been noticed that the members of our credit union are of an old age. We did not attract young colleagues…

FGN3: It is only us the old members.

FGN4: That means that a policy must be implemented by the new credit union."

According to the participants, the reason for this is the lack of incentives and lack of any marketing effort on behalf of their credit union in order to attract younger members. On the other hand, participants considered that investor-owned banks were very effective targeting and attracting the younger generations.

> “FGL5: But the investor-owned banks have very effective advertising mechanisms to attract younger generations.
>
> FGL8: Very effective.
>
> FGL5: And they attract them. When did the credit unions ever have a good marketing campaign?
>
> FGL10: Never. Banks attract people in their 20s, 22s and they grant them loans in order to keep them close to the banks. The youngsters cannot escape.”

Another possible reason is the fact that the new recruits in the profession, which the specific credit union serves, are between 35-45 years old, meaning that they have already created obligations in other financial institutions and hence, it will be very difficult to move these to their professional credit union: “FGN4: … Our new colleagues were of older age when they got jobs in our profession. Because of this, when they… were entitled to become members in our credit union, they had already loans and obligations in investor-owned banks and in other credit unions thus, it was very difficult for them to transfer to our credit union. This is the issue.”

The only way out, according to participants, is for their credit union to offer effective incentives to non-members in order to encourage them to become members:

> “FGL2: If credit unions do not manage to differentiate in the eyes of the youngsters and if they do not offer what banks are already offering, then they will have no incentive to become members in our credit union.”
>
> “FGP1: If the situation changes now, stopping the credit unions from becoming impersonal, then it is worthwhile. If not then what is the reason?

> It depends on how the situation will be. Why should I turn to a credit union and not to a bank?"

However, the most important incentive would be the preservation of the differentiating factor of credit unions: "FGP11: If there is no reason, if there is no incentive for non-members to become members why will they do so? If credit unions start operating just like investor-owned banks, what will be the benefit? Back then, we did have benefits to become members." Moreover, participants considered that it would be too difficult for the credit union to attract new members because the state will control it and thus, this will act as a de-incentive for people to become members:

> "FGL8: … I do not think that this is the right time.
>
> FGL8: … And what motives can you offer to them in order to attract them?
>
> FGL10: It will be the state that will appoint the Board of Directors.
>
> FGL8: There are no motives to influence non-members to become members."

With regards to organizing training/seminars on co-operative-related issues, participants said that their credit union had never organized any such training for them, even though all of the participants admitted that these would have been useful. They particularly considered that it was the management's fault:

> "FGN5: Zero seminars."
>
> "FGN3: Yes, they would have been useful."
>
> "FGL5: Never!"
>
> "FGP3: It is the management's fault if there were no seminars."

6.5.6 6th principle: “co-operation among co-operatives”

The adherence to the 6th co-operative principle, “co-operation among co-operatives”, was examined according to members’ responses to Question 12 (Appendix 3).

From the focus groups participants’ replies, it can be ascertained that members do not agree with the proposed mergers as they will be unfair and cause problems. Most probably participants thought so, because they saw that their influence on the new entity was minimal and thus, their prerogative was impaired. Other participants considered that the merger was useful because it would lead to the closure of branches and savings in running expenses.

More analytically, the participants that argued that the mergers were necessary explained this by saying that there were too many branches and this meant that the running expenses (salaries for cashiers and branch manager, rent, heating, electricity etc.) of credit unions were high:

> “FGN12: It seems that the mergers were necessary…
>
> FGN3: Only in the area where I live, there are 3- 4 branches.
>
> FGN6: One next to the other.
>
> FGN12: … In every branch you need a branch manager, you need this, and you need the other. Now with the mergers, everything is tightening up.”

The participants in one of the focus groups were more sincere and immediately said that they did not agree with the merger of their credit union, claiming that the merger caused the decline of the financial stability of their credit union:

"FGP6: For the members they [mergers] are not useful at all. On the contrary, our credit union was strong and healthy and, now, after the merger we are turning into a very

FGP8: Impersonal.

FGP3: Problematic.

FGP6: Yes. Problematic [credit union]."

One participant even said that he felt as if their credit union was punished because other credit unions were not doing what they were supposed to do: "FGP1: It reminds me of the times we were still in school. When a student did something wrong and the teacher did not know who did it, he punished the whole classroom and not only the specific student. It is the same logic behind the mergers today". Finally, others simply claimed that mergers were unfair and problematic:

"FGL5: Many problems.

FGL2: Unfair.

FGL8: Unfair, unreasonable and problematic.

FGL5: No co-ordination, no organisation whatsoever…

FGL8: Superficiality."

Inferring from the responses of the participants who considered that mergers were unfair and that they caused problems, it can be said that they were expressing their anger and frustration. This seems to be so because these members were not happy at all by the fact that their credit union was forced to merge and also that it was the other credit union's Board of Directors and management that had the upper hand during and after the merger.

6.5.7 7th principle: “Concern for the community”

Finally, the specific union’s adherence to the 7th co-operative principle, “Concern for the community”, was examined based on the focus groups’ responses to Questions 13 and 14 (Appendix 3).

Based on the focus groups, credit unions could assist their members in weathering the financial crisis mostly by adjusting their demands to the abilities of their members, by restructuring loans, reducing interest rates and the amount of installment and extending the repayment period:

> “FGL8: To reduce the interest rates on loans and to restructure our loans reducing our loan instalments…”
>
> “FGP10: Better loan repayment terms.
>
> FGP3: Interest rate reductions.
>
> FGP1: Longer payment period.
>
> FGP3: Reduce our loan instalments in line with our salary cuts.”

As for the criteria to be used in deciding which branches to close down, participants considered both social and financial criteria, as well as merging the weaker and smaller credit unions. Members considered that the first criterion would be the best serving of members:

> “FGL8: To ensure that people will continue to be served. This is very basic.
>
> FGL10: Basically, the better service of clients. This is the first and most important reason.”
>
> “FGP11: Serving us, the clients.”

While, some participants talked about providing good service to members, others referred to the geographical position of each branch:

> "FGL8: The first criterion should be the position of each branch.
>
> Researcher: What do you mean by "position"?
>
> FGL8: The branches should be in central locations. Not to be far away from the town center.
>
> FGL2: Geographically."

The second criterion mentioned was the financially-related, such as, the level of running expenses of each branch: "FGP12: ... If some branches are more costly than others, they should sell them and buy other branches that will be cheaper to run", the use of mobile units [branches on wheels] in an attempt to reduce expenses: "FGL1: Mobile units", the operations of the branch: "FGP11: the criteria should be the operations of the branch" and the turnover and the number of clients each branch serves:

> "FGN5: The turnover of each branch.
>
> FGN7: The number of clients of each branch."

Additionally, within the financial criteria, it was argued that the branches with the lowest running expenses should be kept and the rest should be closed down:

> "FGP3: Since we are talking about financial aspects, we should talk about reducing our expenses. We should maintain the branches with the lowest running expenses.
>
> FGP2: The most important criterion should be the economic usage of the branch. Otherwise, you will close down."

A third criterion, which is neither financial nor social, suggested for the strongest/most influential credit union to be in control after the merger:

> "FGP7: The fact that we were the weaker in this merger has negatively influenced the decision regarding the branches to be closed down.
>
> FGP8: What is important is that the decision was taken by the Board of Directors and the General Manager of the credit union we merged with.
>
> FGP11: For sure, our opinion was not taken into consideration in the decision."

6.6 Summary of findings

In the examination of the results from the individual structured interviews, the statistics obtained from CSSDA and the focus group interviews, it can be concluded that four co-operative principles were followed up to the time of the crisis, but as a result of the subsequent events, since the 2013 crisis (e.g., the disappointment and fear that people felt regarding a second deposit haircut, the possibility of further salary cuts and layoffs, as well as the granting of 99% shares in credit unions to the Cypriot state), these may not be followed in the future. More specifically, the 1st co-operative principle, "Voluntary and open membership", is followed, even though some argue that this may change in the future due to the 99% ownership of the Cypriot state. Additionally, the 2nd co-operative principle, "Democratic member control", seems not to be followed as less than 30% of members vote during the Board of Directors' elections, as there are two or fewer candidates for each available position on the Board of Directors and only 25% of members attend the AGMs. Furthermore, the data collected shows that credit unions used to follow the 3rd co-operative principle, "Members' economic participation", but they may have stopped following it, as members are no longer willing to invest more in their credit union mainly due to the uncertainty and the chaos that the financial crisis of 2013 (and the subsequent deposit haircut), in Cyprus, has caused. In relation to the data on the 4th co-operative principle, "Autonomy and independence", it can be said that, even though in the past it was followed, it is not followed now as credit unions are no longer independent due to the 99% ownership of the Cypriot state and due to the fear that credit unions will lose their anthropocentric character and hence, the support of their membership. Concerning the 5th principle, "Education, training and information", the data collected seems to support the view that it is not followed although members consider that the employee, management and members' training is very important. In contrast credit unions seem to provide such co-operative relative training very seldom. However, the 6th principle, "Co-operation among co-operatives" is followed at least with regards to the imposed mergers among credit unions. Finally, the data on the 7th co-operative principle, "Concern for the community", show that, even though this was followed in the past, nowadays, as a result of the granting of the 99% of the shares in credit unions to the state, it will not be followed anymore, as most interviewees and focus group participants place more emphasis on the financial rather than the social criteria on choosing which branches to close down. Similarly, it seems that from now on, credit unions will not be in the position to offer their services to their surrounding communities because of restrictions imposed by Troika, in line with the obligation of credit unions to repay the €1,5billion and the associated 10% interest. A summary of the results of the structured individual interviews, the focus group interviews and the data obtained from the office of Commissioner of the Co-operatives Supervision and Development Authority can be found in Appendix 4.

As seen above, the three different methods have produced similar results, confirming each other, and all of them confirming the findings of researchers such as Novkovic, 2006; 2008; Wilson and MacLean, 2012; Oczkowski, Krivokapic-Skoko and Plummer, 2013; Kelly, 2014, who claim that co-operatives do not adhere to their founding principles, or at least not to the level that is proclaimed in the literature. The comparison and the discussion of the results of the three methods, in relation to existing literature will be carried out in the next, final Chapter, clearly stating the contribution of the present study to existing literature and to practice. Finally, the limitations of the present study will be set out and explained, indicating possible areas for further research.

Chapter 7: Discussion

7.1 Introduction

Chapter 1 has focused on co-operatives and their governance, briefly touching on the research aim, research questions and the intended contribution to the literature and to practice. Chapter 2 extends the examination of the existing literature on co-operative governance, analysing and explaining the seven co-operative principles. Following, in Chapter 3, the research questions were formulated and the intended contribution to the existing literature and to practice was highlighted. Moreover, in Chapter 4 Cyprus was set as the geographical location of the present study, while credit unions were set as the specific co-operative type to be used in this study. Chapter 5 discussed quality, ethics and the research design and methods that have been used for the present study. In Chapter 6, the results of this research were analysed, while in this Chapter (Chapter 7), the results of the present research are discussed in relation to the existing literature, aiming at contributing to academic knowledge by answering the two research questions. More specifically, the results of the 1st, 3rd, 4th, 5th, 6th and 7th co-operative principle are used to address the 1st research question, while the results relating to the 2nd co-operative principle are used to address the 2nd research question. Finally, the limitations of the current research as well as suggestions for future research are also discussed.

7.2 1st research question: "What are the perceptions regarding the practical application of the co-operative principles?"

The aim of the first research question was to gain an understanding of the perceptions of employees and members regarding the adherence of their credit unions to the co-operative principles. As discussed in Chapter 2, the co-operative principles represent a set of guidelines on how a co-operative and its members can interact with each other (Nilsson, 1996). Furthermore, the co-operative principles must be consistently and continuously applied in the day-to-day operations of co-operatives (Parnell, 1995; Co-operative Commission, 2001) and they must be adjusted to the lives of their members (Parnell, 1995). For example, by being transformed into tangible products and services that better serve the needs of their members (Davis and Worthington, 1993). This means that co-operative principles must not remain on paper, but must be kept alive to guide the daily operations and management of a credit union.

Concerning the results of this research, one of the first findings is that the employees of credit unions did not remember (all) the co-operative principles, possibly indicating that credit unions do not put these into practice, despite being of great importance. Following is a discussion on the literature review (Chapter 2) and the findings for each of the six co-operative principles (excluding the 2nd principle) in an attempt to answer the first research question.

7.2.1 1st principle: "Voluntary and open membership"

As discussed in Chapter 2, in the case of the first principle, "Voluntary" refers to potential members deciding whether and when to become members and "Open" refers to the co-operative being able to accommodate new members that are willing to undertake the responsibilities that membership entails (Papageorgiou, 2004). The open membership policy has economic value to future members (Fulton and Giannakas, 2012). On the other hand, exiting the co-operative may be free but only once certain obligations are met, such as the repayment of members' obligations to the co-operative (Papageorgiou, 2004). Finally, the decision as to when someone will become a member or will exit a co-operative can be taken only by the specific individual. Not even the government can force a person to either become a member or exit (CSSDA, 2005).

The data obtained from the interviews show that the employees of credit unions consider that credit unions follow the first co-operative principle as there was no evidence that anyone was forced either to become member or to exit their credit union. This is in line with the existing literature and the researcher's expectations.

Specific interviewees considered that sometimes people are “forced” to become members in order to obtain a loan, to co-sign a borrowing facility or to vote for someone they know, but this does not invalidate the rule, as they do so voluntarily. Additionally, in some cases, interviewees considered that specific members exited voluntarily because they felt that their credit union gave them a hard time (e.g., by not serving them right away or by not meeting their needs) or because they found better terms elsewhere. In some extreme cases, a credit union convinced specific members to exit because of mental health problems or because of a court conviction. Again, these exceptions seem reasonable as the specific member as well as the rest of the members are protected. Indeed, credit unions follow the first co-operative principle, but consideration should be given to the implementation of this principle in the future, as discussed in the focus groups' results, especially since 99% of credit union shares have been transferred to the state.

The focus group results support the findings from the individual interviews, with participants arguing that this principle is followed. However, specific participants argued that this principle may no longer be followed due to the state owning 99% of the shares in credit unions, enabling it to decide who is going to become a member. Additionally, participants argued that no matter what the state does, people may not want to become members anyway, as members will have no control over their credit union (1% member ownership as opposed to the 99% ownership of the state). This may have very negative consequences for credit unions as people may be discouraged from becoming members and existing members may become suspicious of the state's intentions and thus exit.

It is the researcher's personal belief that the state intervention and the possible deterrent of new members and/or the exit of existing members will have an adverse effect on credit unions. Moreover, the restrictions on new members may cause the apathy of the remaining members thus, reducing the number of candidates that run for the Board of Directors and the control of members on the Board of Directors. Even worse, these could allow a small group of members (an "elite" group) to control the credit union or reduce the control over management, allowing the latter to shift their focus away from members' needs.

Based on the above findings, it can be said that, up to the point the state obtained a 99% ownership in credit unions (through the Co-operative Central Bank), the first principle was followed. These findings are in line with existing literature as voluntary and open membership is expected (Papageorgiou, 2004; CSSDA, 2005; ICA, 2012a). As to the possible restrictions on this principle, Oczkowski, Krivokapic-Skoko and Plummer (2013) found that in general the 1st principle is followed except in some specific types of co-operatives, e.g., housing and agricultural where membership is restricted. Similarly, Novkovic (2006) found that only 85% of her respondents believed that membership is open and voluntary in their co-operative. However, the findings of the present research identified that members fear that, from the moment the state obtained control of their credit union, this principle will no longer be followed. This pessimistic stance of members may be directly linked to the difficult financial situation at the time of the individual and the focus group interviews, causing the heightening of uncertainty and the fear for the future. It looks as if credit unions may be entering a vicious circle with younger people not entering and existing members exiting, reducing even more the effectiveness of the governance system of credit unions.

7.2.2 3rd principle: "Member economic participation"

As discussed in Chapter 2, the third principle entails that "members contribute equitably to, and democratically control, the capital of their co-operative" (ICA, 2012a) and that the amount of share capital to be invested in a co-operative is decided by members and is formulated in accordance to their current and future needs (CSSDA, 2005). Co-operatives aim to increase the well-being of their members by compensating them, based on their value of transactions (Papageorgiou, 2004). Additionally, a co-operative will pay only as much as it has to pay in order to attract enough capital to finance its activities (Birchall, 1997; Papageorgiou, 2004), a principle that enabled co-operatives to build a sense of belonging and, at the same time, to rapidly grow their operations (Birchall, 1997).

On the down side, as a co-operative grows, members may be unable or reluctant to contribute to the increase of its share capital (Bijman et al., 2012b), causing the need for alternative sources of finance.

The data of the individual interviews, with the credit union employees, indicate that currently the majority of the members are not willing to contribute financially to the strengthening of their credit union, for example, by acquiring class B' shares. The majority of the interviewees believed that, even if the need arose, the existing members would not purchase class B' shares because they either lost their trust or they suffered financial loss themselves, rendering them incapable of contributing to their credit union, or they were kept back by the uncertain future or any combination of the three. The reasons of these responses are mainly due to the financial crisis, the instability of the economy, the deposits' haircut and the difficult economic climate.

The employees' perceptions regarding the unwillingness of members to financially contribute to their credit union were confirmed by the members themselves, in the focus group interviews, who argued that that this is because they only have 1% ownership. Some other focus group participants were worried even with the idea that one day they will be asked to financially contribute to their credit union, while others complained about the monthly contributions of €70 to their "permanent" deposits. This finding may seem radical but one should consider that the focus group interviews were held only a year after the crash of the financial sector in Cyprus and that people were still worried about the safety of their deposits, their ability to repay their loans, as a result of the salary cuts and unemployment, and even about the possibility of a second deposit haircut. All these factors increased their insecurity and fear of what the future would bring, as well as their frustration about the non-punishment of all that were involved in this financial tragedy.

Based on the above findings, it can be said that credit unions used to follow the 3rd principle, but, nowadays, mainly due to the uncertainty that existed after the financial crisis of March 2013, in Cyprus, it may not be followed anymore. These findings do not concur with the existing literature which assumes that in case of need, members will provide additional capital to their credit union (Papageorgiou, 2004; ICA, 2012a; Oczkowski, Krivokapic-Skoko and Plummer, 2013). However, under certain conditions (e.g., due to the portfolio - Section 2.2.4- and horizon - Section 1.3.2- problems) members are "forced" to behave according to their own best interests and not as they are expected as members of a co-operative, with regards to investing in their co-operative (Harte, 1997). Apart from the uncertainty and fear, these results may also be linked with the findings of the 5th co-operative principle: "Education, training and information" and the lack of training of members in co-operative-related issues. This lack of training may have caused the loss of cohesion among members, diminishing the Cypriot co-operatives' moto "one for all and all for one". Moreover, the above results seem to be congruent with those of the 2nd co-operative principle "Democratic member control" (Section 7.3) as members are not involved with their credit union, do not take part in the AGMs and they do not participate in and do not stand for the elections for the Board of Directors. It may be concluded therefore, that when members lose their cohesion and they forget the ideological differences of credit unions, they start behaving according to their self-interest, ignoring their common good.

Furthermore, one could argue that the perceived unwillingness of members to financially support their credit unions, may reflect the current unstable and insecure financial situation, but it may also indicate a deeper reason. Using S-D Logic, it might be the case that over the 100 years of their existence, credit unions may have displaced their members from their top priority, that is, to support the co-creation activities of their members (Prahalad and Ramaswamy, 2000; Payne et al., 2009), possibly considering members as external to them, and not as their co-creators of value (Vargo and Lusch, 2004). If this holds true, then members may have been convinced that their credit union does not meet their needs anymore, i.e. it does not contribute to their co-creation activities, thus, members move to other organisations that do so (Payne et al., 2009; Lusch, Vargo and Tanniru, 2010; Lusch and Vargo, 2011). If credit unions focused on their members and on their needs, members would have wanted to support their credit unions, to the extent that they could do so, financially or otherwise.

7.2.3 4th principle: "Autonomy and independence"

According to the literature on the 4th co-operative principle, in Chapter 2, co-operatives ensure their autonomy and independence by relying on the financial contribution of their members, for their initial share capital and thereon, on the surpluses of the co-operative. In other words, co-operatives do not depend on non-members or any other organization for their financing needs (CSSDA, 2005). In cases when the co-operative must borrow money from non-members, including the government, it does so ensuring that its independence and autonomy are not jeopardized (CSSDA, 2005). Co-operatives should remain independent (even in relation to governments) because any kind of dependence, apart from co-operative members, may create a false feeling of success, gradually leading to economic dependency and finally to the failure of a co-operative (Papageorgiou, 2004). Finally, the first co-operatives described themselves as "societies" in order to stress the importance of their self-governance, in contrast to quasi-governmental, governmental or non-governmental entities (Atherton et al., 2011, p.9), a description which is still used in Cyprus. For example, the name of the ex-supervisory authority of co-operatives was "Co-operative Societies Supervision and Development Authority".

The data obtained from the interviews with the credit union employees indicate that in the past the 4th co-operative principle was followed, however this is not the case anymore. This is because the interviewees considered that if non-members invested in credit unions, by buying Class B' shares; this investment would enable non-members to put pressure on credit unions to act like investor-owned banks. Moreover, the investment by non-members could result in the existing members completely losing control over their credit union, that is, credit unions could be demutualized. However, the interviewees believed that by granting to the state

99% of the shares in co-operatives (for an amount of €1,5 billion), the latter will lose their autonomy and independence as from then on the state will take decisions, constraining members from democratically controlling their credit unions. When the interviewees were asked about the future of credit unions in Cyprus, they said that credit unions would cease to exist in the shape and form that they are known today. Rather, they would become investor-owned banks or work as if they were for-profit banks, continuing to merge among them and reducing in number, reaching below eighteen.

The data from the focus group interviews showed that the specific credit union, used to follow the 4th co-operative principle, "Autonomy and independence", in practice, but they feel that from now on this will change. This is because members lost their trust in their credit union as it has become inter-dependent with all other credit unions, including the not so financially strong ones, something that could even cause the failure of their own credit union. Additionally, members perceived that the transfer of 99% of the ownership to the state has almost eliminated the ability of the members to influence their credit union's decisions, causing its complete dependency on the state.

The above results do not concur with the existing literature (CSSDA, 2005; Atherton et al., 2011; ICA, 2012a), according to which one would expect credit unions to have obtained the €1,5billion loan ensuring their autonomy and independence in relation to the Cypriot state. This however, did not happen in reality as the loan was obtained after the state was given 99% ownership of credit unions, through the Co-operative Central Bank. It seems that even a loan of such a big value would more or less have the same result, i.e. the loss of credit unions' independence and autonomy, because of the collateral that would have been requested and the influence that this lender, the Cypriot state, would have asked for, in an attempt to protect its investment. Moreover, members felt that the dependency on the state may even cause the failure of credit unions, as predicted by Papageorgiou (2004). Additionally, Novkovic's (2006) results were opposite to the above findings as 93% of her respondents said that their co-operative was indeed autonomous and independent. However, the results of the present study are in line with part of the findings of Novkovic (2006), in the sense that 52% of her respondents reported that the decisions of their co-operative were influenced by creditors and financial institutions.

If the present research's results, aforementioned, are combined with those addressing the second research question, and more specifically that in some credit unions the political parties predetermine the names of the candidates for the Board of Directors (indicated by both members and employees), it may be the case that credit unions are not only dependent on the Cyprus state for their financing, but also on the political parties as to who will be elected on their Board of Directors. This dependency could indicate that political parties can influence the direction of credit unions and their management (Korres, 1999; Stefancic, 2011) and this kind of influence may even cause the breaking up of credit unions to many smaller groups (Papageorgiou, 2004). Finally, by combining the results retrieved for the fourth principle with those of the third and fifth ones, it can be concluded that due to the lack of co-operative-related training of members and everybody else involved (including governmental officials), members have lost their cohesion and their belief in the differences of credit unions in relation to organisations of other forms. This may have led to the unwillingness of members to financially contribute to their credit union and ultimately to the loss of credit unions' autonomy and independence.

7.2.4 5th principle: "Education, training and information"

Concerning the 5th co-operative principle, "Education, Training and Information" (see Chapter 2), ICA (2012a) states that "co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives" and that they "inform the general public -particularly young people and opinion leaders- about the nature and benefits of co-operation". Furthermore, the Rochdale pioneers quickly understood the need for education and training that, in the 1850s they allocated 2.5% of their surpluses for this purpose (Birchall, 1997). Moreover, in Mondragon Corporación Cooperativa, 2% of the gross profit is used in providing research and development as well as co-operative education (Bakaikoa, Errasti and Begiristain, 2004). This is because co-operative training enhances the co-operation spirit among members and it opens the doors to non-members to become members (Papageorgiou, 2004). Similarly, S-D Logic refers to knowledge as one of the core competences that are necessary for the provision of service (Vargo and Lusch, 2004; 2008a; 2010; Lusch, Vargo and Wessels, 2008). Without the training of members, personnel, management and the Board of Directors, co-operatives can be mistaken as normal economic organizations, forgetting their important ideological differences from the other business forms (Papageorgiou, 2004). On the contrary, by training employees and managers, they can "think anew how their personal ideas and behaviour" are measuring in relation to the co-operative principles and values and how they can integrate these in their day-to-day work (Bickle and Wilkins, 2000, p.199). Additionally, training renders membership more effective and facilitates democratic control (Birchall and Ketilson, 2009). Furthermore, the behaviours, structures and values must mutually reinforce the message that is sent by co-operatives to the society (Bickle and Wilkins, 2000), something that can be achieved only through training. Finally, S-D Logic talks about the need for an organisation to learn the competences and skills of its customers so that it can educate the latter and increase their value creation capabilities (Normann and Ramirez, 1993; Normann, 2001) and hence to increase the volume of transactions with their credit union.

Based on the results of the individual interviews, it can be said that credit unions did not provide any co-operative-related training to their employees despite that all, but one employee, considered that training on co-operative principles and other co-operative specific areas is very useful and necessary. In the cases where employees had received such training, this took place many years ago and/or was part of their induction training. Specific interviewees considered that training could be replaced through on-the-job training or through discussions during staff meetings. From those that thought that training would be useful, some considered that it would particularly assist in strengthening the co-operative idea, especially during these difficult times, while others thought that it could align employees and bring uniformity, for example, in the way clients are handled.

Furthermore, with respect to the provision of such training to existing or potential members, the interview results have shown that credit unions did not provide any such training and they did not take measures to inform younger generations. More specifically, with regards to training existing or potential members, almost all interviewees said that their credit unions had never provided training on co-operative issues to their existing and/or prospective members, with the minority arguing that their credit unions did so but indirectly. However, other interviewees argued that their credit union provides some kind training for certain member groups, e.g., retired or new members. When participants were asked about the measures, if any, that their credit unions took to inform and/or attract younger generations, the majority of the interviewees argued that their credit union provides relevant information on its website, advertises in newspapers, sends brochures and; offers products and services that meet younger generations' needs. However, a small minority of interviewees indicated that their credit union does not take any such measures to attract younger generations, with specific respondents explaining that this was due to the fact that some people do not want the younger generations to be informed.

The focus group data support the individual interview findings as they indicate that the specific credit union under study does not follow the 5th co-operative principle. Moreover, it seems that this credit union has never tried to attract younger people and encourage them to become its members something that may be indicated by the older age of most of its members. Members considered that their credit union should take measures in order to inform and attract younger people and this should have started more than a decade ago. According to the members interviewed, the reason for this situation is the lack of incentives and marketing effort on behalf of their credit union, something that investor-owned banks are very successful at.

Based on the above, it can be said that the credit unions of the participants in the individual interviews and of the focus group respondents do not follow the 5th co-operative principle. This is because these credit unions have (almost) never offered any co-operative-related training to their employees and (potential) members. In some exceptional cases, these credit unions offered co-operative-related training to their employees but this was many years ago. Moreover, as indicated by the data obtained, these credit unions do not even attempt to educate the general public and especially younger generations with the result being that existing members are of an older age, leaving younger generations in the hands of investor-owned banks. The above findings do not coincide with the existing literature which assumes that credit unions train their members, personnel, management and the Board of Directors in order to enhance the co-operative spirit and attract new members (Birchall, 1997; Papageorgiou, 2004; CSSDA, 2005; ICA, 2012a, Oczkowski, Krivokapic-Skoko and Plummer, 2013). Birchall and Ketilson (2009) consider training as a commitment of the co-operative to render membership more effective and to facilitate democratic control, but clearly this is not the case with the credit unions that were included in the sample of the present research. However, the above results are in line with those of Oczkowski, Krivokapic-Skoko and Plummer (2013), who found that not all co-operatives engaged in the training and education of their customers, suppliers, employees, management and directors. Similarly, Novkovic (2006) found that none of the co-operative in her sample, engaged in education activities for the general public. The lack of training could lead to the loss of trust among members and their co-operative and hence, opportunities should be provided for face-to-face contact in informal environments (Gall and Schroeder, 2006).

By combining the results of the present research on the 5th principle with those of the 2nd principle and according to the existing literature (see Chapter 2), it can be said that without the training of members, personnel, management and the Board of Directors, credit unions could be mistaken as normal economic organizations, forgetting their important ideological differences from all of other business forms (Papageorgiou, 2004). This finding is crucial for the effectiveness of the governance structure, the success and the long-term survival of credit unions. Without providing co-operative-related training to all stakeholders including the

Board of Directors, the latter may not set up the necessary governance structure. What is more, management may not provide the proper direction, allowing to the credit union to depart from its founding principles, to set sub-optimal targets and/or even targets that remove the well-being of members from its top priority. Similarly, when a credit union does not train or educate its existing members, the latter will lose their cohesion and pursue their own self-interest, resulting to the lack of participation of members and allowing a small group ("elite") to control the credit union (Itkonen, 1996; Birchall, 1997; Papageorgiou, 2004; Spear, 2004a; 2004b; FSA, 2007). However, these findings contradict the S-D Logic as credit unions do not to consider knowledge as one of the core competences that are necessary for the provision of service (Vargo and Lusch, 2004; 2008a; 2010; Lusch, Vargo and Wessels, 2008) and are not eager to develop those competences and skills in their members (Normann and Ramirez, 1993; Normann, 2001).

Training and education in co-operative-related issues do not seem to be high in the priority list of credit unions and, due to the financial crisis and the control by the state; it is highly unlikely that this will change in the years to follow. However, without training their potential members, credit unions cannot alter the routines/customary actions of the latter and hence will not encourage them to become members (Payne et al., 2009). It is the researcher's belief that the failure to educate potential members and society in general, regarding the potential benefits of membership, may restrict credit unions from increasing their collaboration with existing members (net depositors or net borrowers), thus constraining their future growth. Hence, as most existing members are either retired or approaching the retirement age, credit unions should take every possible opportunity to educate and attract potential members, especially of younger age in order to secure their long-term existence and viability. Similarly, it has been found that credit unions did not educate governmental officials. This is evident by the results, i.e. when credit unions needed to increase their capital, the government instead of assisting credit unions whilst safeguarding their autonomy and independence, it provided an increase of share capital obtaining 99% of the shares in credit unions, restricting members' shares to just 1%. In the past, co-operative-related training was important as people needed to be educated on the merits of credit unions, but once the latter reached beyond this point, the importance of education seems to have been downgraded. This is, true even though the financial climate these days sometimes seems not to be very different from what existed a hundred years ago, when co-operatives were introduced to the island.

7.2.5 6th principle: "Co-operation among Co-operatives"

This principle (see Chapter 2) encourages the co-operatives to co-operate amongst themselves on a local, national and international level to promote their joint interests, to better serve their members and to promote the co-operative movement (CSSDA, 2005). The extent of the practical application of this principle deals with whether co-operators consider themselves to be part of the larger co-operative movement or not (Birchall, 1997) hence, co-operatives must continuously and sincerely co-operate amongst themselves despite any difficulties (CSSDA, 2005). This principle can be seen as a strategy to ensure the economic success of co-operatives (Birchall and Ketilson, 2009), for example, to transfer knowledge and knowhow from advanced co-operatives to less advanced co-operatives (Papageorgiou, 2004). The idea of co-operatives co-operating amongst themselves is also supported by S-D Logic, which argues that to survive, credit unions must form interdependent networks/alliances (Prahalad and Ramaswamy, 2000; Vargo, 2009) or "constellations" where credit unions share the collective knowledge that is available amongst themselves (Prahalad and Ramaswamy, 2000). This is necessary for credit unions to make their own value propositions better and more attractive to existing and potential members (Normann and Ramirez, 1993; Normann, 2001; Spohrer et al., 2007; Vargo, Maglio and Akaka, 2008).

The data obtained from the interviews show that almost all credit union employees that were interviewed considered that the proposed, by Troika, mergers among credit unions have a positive impact, as they contribute to the financial strengthening and the viability of their credit unions. Additionally, the respondents considered that, through the mergers, better organizational structures could be created and that professionalism could be enhanced. Moreover, they stated that the mergers could better align the credit unions, as well as, assist in a more effective control and reduction of expenses. On the negative side, interviewees worried about the possibility of layoffs in credit unions, the closure of branches as well as the loss of the local character of their credit unions.

According to the focus groups results, members considered that the mergers were useful because they would lead to savings in running expenses, while other members argued that the mergers were necessary for their long-term survival and thus they should be carried out. However, other respondents considered that the mergers were unfair and problematic, whereas specific participants clearly stated that they did not agree with this change. With some hindsight, it can be inferred that these negative responses, most probably, expressed the anger and the frustration of members as in a recent merger of their own credit union with a stronger one, they had to accept what the other credit union imposed on them. In this case, it seems that these members reacted negatively because they would lose their influence on the Board of Directors and on management, fearing that their demands would not be met as easily anymore. It may be further inferred that despite being members in a credit union, these participants put their personal interest, i.e. their loss of power and influence, higher than the common interest and the long-term survival of their own organization, the organisation that supported them for so many years.

Considering the data obtained from the focus groups, it may be said that credit unions follow this principle, even though some members did not agree with the merger mainly because of the loss of influence and power over the new credit union's Board of Directors. On the other hand, based on the individual interviews almost all employees were in favour of the mergers as they considered that through these, the new credit union(s) will become even more professional, will have a better organisational structure and will be stronger, more viable; hence their jobs will be safeguarded. The findings from the individual interviews are in line with the existing literature, in which it has been noted that credit unions must continuously and sincerely co-operate among them in order to overcome common problems, to exchange knowledge and experiences and to manage change (CSSDA, 2005). However, part of the results from the focus groups, referring to the fact that members consider their self-interest as more important than the common good, do not coincide with the relevant literature that assumes that the co-operative principles and values act as catalysts in aligning members' interests and in allowing them to function together towards the fulfilment of their common goals (Nilsson, 1996; Oczkowski, Krivokapic-Skoko and Plummer, 2013). However, the findings are in line with Novkovic (2006), who indicates that even though co-operatives had co-operation with other co-operatives, this was superficial without any clear benefits for the organisations involved. Moreover, the adverse opinion towards the mergers may have been the result of low trust among members of various credit unions as "trust and cooperation are needed to "oil the wheels" of information exchange" (Gall and Schroeder, 2006, p.34). Finally, it can be said that the above finding is in line with Papageorgiou (2004) and Spear, Cornforth and Aiken (2009), who support that allowing a few members to take decisions that serve their own interests and not that of the members at large, may indicate the beginning of a credit union's failure. The findings on the 5th principle "Education, training and information" may be of use here again, as it may be concluded that any kind of co-operative training would have brought members closer, increasing their cohesion and reminding them about the importance of taking decisions for the common good rather than for their personal interest.

It seems that co-operation among credit unions is not an option but rather a need as, according to S-D Logic, credit unions should create constellations enabling all of them to benefit from the exchange of their knowhow and experiences (Normann and Ramirez, 1993; Lusch et al., 2007), rendering their service propositions better and more competitive than those of their competitors. Additionally, to better serve their members, credit unions should constantly update their service and value offerings, continually creating, transforming and integrating their competencies (Lusch et al., 2007). By reconfiguring their own resources, people and infrastructure, credit unions could remain at the forefront of competition (Prahalad and Ramaswamy, 2000; Lusch, Vargo and Tanniru, 2010). Finally, credit unions should put pressure on themselves to constantly enlarge their knowledge base and re-establish the way they approach their members (Normann and Ramirez, 1993).

7.2.6 7th principle: "Concern for the community"

Apart from their primary purpose which is to best serve the interests of their members, co-operatives also aim at the development of the societies in which they operate (Papageorgiou, 2004; CSSDA, 2005 – see Chapter 2). Co-operative members must identify and identify with the wider community (Birchall, 1997) as there is a strong interconnection between the success of a co-operative with that of the community in which the former operates (Birchall, 1997; Lusch et al., 2007; Birchall and Ketilson, 2009). Finally, the loss of the local character of co-operatives, e.g., through expansion into new areas, can cause the dilution of members' involvement and commitment (Fonteyne and Hardy, 2011).

In line with the above, the data obtained from the interviews with the credit union employees indicate that credit unions should assist their members by becoming socially active, by offering to the unemployed and by making donations. Additionally, given the difficult financial situation that the financial crisis of March 2013 has caused, respondents suggested that credit unions should reduce the loan instalments and the interest rates on loans, extend the period for the repayment of loans, offer new products and even ask for a change in the legislation in order to introduce a "sale and lease back" option to protect the homes of borrowers. Concerning the criteria for choosing which branches to close down, the data show that employees mainly considered the economic criteria, e.g., the number of clients that are served by each branch and the financial viability of each branch. With regards to the social criteria, participants considered the geographical location of the branch, in the sense that those that are more convenient for the members should remain open and that more branches should be closed in towns, where there is a much higher density of bank branches. They even suggested a possible solution to the social problem of serving clients, in the rural areas, indicating that this can be done by the branches opening only for a few days per month, with one interviewee suggesting the use of movable bank branches ("branches on wheels").

Similarly, based on the data collected from the focus groups, the intentions of the specific credit union to provide to the society were evident, e.g., by lowering the loan interest rates or by providing scholarships. However, due to the transfer of 99% of the shares to the state, members felt that they would not be able to decide for themselves about the kind and extent of social expenditure. Additionally, the focus group participants argued that, even if members could decide for themselves, the need to repay the €1,5 billion together with the 10% interest per annum, would restrict the available amounts for social expenditure to the minimum. Finally, others considered all three, social, financial and political criteria in deciding which branches to close down, and not only social criteria, as one would have expected.

Based on the above, it can be said that credit unions followed the 7th principle, but this may not be the case in the future. The existing literature refers to the need for credit unions to assist/contribute towards the development of the societies, in which they operate, something that credit unions did in the past, for example, by providing scholarships, contributions towards theatres, football clubs and provision of dancing lessons. These findings are very similar to those of Oczkowski, Krivokapic-Skoko and Plummer (2013) who found that the majority of co-operatives undertook community assistance, such as, financing community groups, schools, welfare, sporting and providing scholarships. What was different in Oczkowski, Krivokapic-Skoko and Plummer's (2013) research was that in some of their cases, co-operatives perceived the concern for the community as a marketing/advertising expenditure and not as a genuine philanthropic gesture. Similarly, Novkovic (2006) found that 95% of her respondents considered this principle as important, that their co-operative's decisions were influenced by their concern for the community and that co-operatives usually made donations of services, employee time and goods, they financed projects involved in community development and provided scholarships.

With regards to the criteria to be used in deciding which branches to close down, the focus group participants' perceptions are in line with those in Osterberg and Nilsson's (2009) study. That is, a large percentage of members assess their credit union with respect to social criteria rather than economic criteria. However, based on the data collected, both interviewees and focus group participants were pessimistic with regards to the continuation of offering to the wider community as the passing of 99% ownership to the state in combination with the financial crisis of 2013, would radically reduce the funds available for such donations. One way to continue to serve the community, without credit unions suffering high expenses, is by following the suggestion of interviewees, i.e. to open remote branches only for a few days per month and organize social events in order to raise funds for social purposes. Furthermore, employees and members could carry out social work on a voluntary basis for the community. Some of the pessimism expressed by both employees and members may have been caused by the bad financial position that created a lot of uncertainty regarding the jobs of both employees and members, forcing them to consider only their own basic needs. Provided that credit unions had the possibility to do so, these difficult financial times, could prove to be a good opportunity to strengthen their membership basis and cultivate the co-operative spirit. This could be achieved by making donations, lowering their loan interest rates and providing for the needy, through training on the benefits of credit unions, as well as capital, especially to the unemployed, in order to set up new co-operative businesses.

7.2.7 Conclusion for the first research question

A general conclusion for the first research question, **"What are the perceptions regarding the practical application of the co-operative principles?"**, that may be drawn is that the short period between the individual interviews and focus groups and the financial crisis of March 2013, in Cyprus may have acted as a multiplier for the pessimism, fear and uncertainty the interviewees and participants expressed. However, these were their perceptions, at the time. To the present study author's knowledge, this may be the first research carried out on the adherence to co-operative principles in a time of a crisis. Just six months before the first data collection (through interviews), Cyprus experienced probably the worst financial breakdown in its history, matched only by the consequences of the Turkish invasion in 1974. This happened as Cyprus (as all other countries) was trying to navigate through the consequences of the 2008 crisis. That is, Cyprus had a disastrous local financial crisis whilst being in the middle of an international one. The collection of data during this crisis may be the most important contribution of the present study.

Considering the data from the individual interviews and focus groups, it can be concluded that the 1st co-operative principle was followed in practice; at least, up to the moment the state became 99% owner of the shares in credit unions. People feared that, from that moment onwards, it would not be up to credit unions to decide who and when will become a member or leave. The existing literature assumes that credit unions ensure voluntary and open membership, but according to the results of the present research, this may not be true anymore, due to the loss of the autonomy and independence of credit unions.

With regards to the results on the 3rd co-operative principle, these do not seem to be in line with the existing literature as members have indicated that they are no longer willing to participate in the financial strengthening of their credit union. In other words, this principle used to be followed in practice, but not anymore, due to the results of the financial crisis of March 2013. Part of these perceptions may be due to the feelings of insecurity and pessimism following the deposit haircut, the salary cuts, the fear of layoffs, the pessimism and the high level of uncertainty as was expressed by both the employees and members of Cypriot credit unions.

In an examination of the 4th co-operative principle, the results indicate that credit unions used to follow this principle in practice, but now have lost their autonomy and independence since the state has become 99% shareholder in credit unions leaving only 1% to members. Both interviewees and participants feared that from now on it will be the state that will take all the decisions regarding credit unions and that the latter are financially dependent on the state for their survival. With regards to the future of credit unions, the replies were pessimistic, expressing concerns that credit unions will start operating just like investor-owned banks, irrespectively of how they will be labelled (credit unions or anything else). Additionally, focus group participants were worried about the loss of their independence and autonomy due to the mutual support arrangements among credit unions, forcing them to become inter-dependent with the rest of the credit unions (viable and non-viable). It could be inferred that the concern about specific credit unions becoming less financially viable, through their interdependence with others, is an indication of the self-centred way of seeing things. Under normal conditions, one would expect that members would aim to co-operate even more closely with the less viable credit unions, in order to transfer knowhow and experiences, to strengthen them and not to worry about the survival of their own credit union, as was the case in this research.

The results indicate that the 5th co-operative principle is not applied in practice as credit unions do not seem to provide any co-operative-related education or training to their employees, members and society in general. This does not concur with the existing literature (Birchall, 1997; Bakaikoa, Errasti and Begiristain, 2004; Cabo and Rebelo, 2014) which supports that training is important for co-operatives and that the latter provide training and education to their employees, management, members and governmental officials. Credit unions should train and educate their members in order to enhance their members' competencies in an attempt to serve them better. The lack of co-operative-related training may be one of the reasons behind the inability of credit unions to attract younger generations, "handing" them to investor-owned banks. Additionally, the lack of such training could be the reason behind the imposed granting of the 99% of the shares to the state for €1.5billion, when possibly, other solutions, e.g., a loan could have been chosen which could have ensured the autonomy and independence of credit unions.

Moreover, the results of the current research indicate that the 6th co-operative principle "Co-operation among co-operatives" is followed in practice and this can be evidenced by the continuous mergers among credit unions reducing their number to just eighteen. According to the data obtained, it can be seen that employees and members had diverse opinions regarding the appropriateness of the mergers. On the one hand, the employees of credit unions were in favour of the mergers, which is in line with the existing literature (Papageorgiou, 2004; CSSDA, 2005; Birchall and Ketilson, 2009), as through them they hoped for stronger, more financially viable and more professional credit unions. On the other hand, the members were not in favour of the merger of their credit union arguing that it was unfair and would cause problems, a finding which is not supported by the existing literature as a merger is a way through which credit unions can co-operate amongst them (CSSDA, 2005), transferring knowledge and knowhow (Papageorgiou, 2004) and thus ensuring the success of co-operatives (Birchall and Ketilson, 2009). However, it seems that this reaction is directly linked to the fact that their credit union was absorbed by a stronger credit union thus, they did not have a lot of saying during the merger process and most importantly, they lost their influence and control over management and the Board of Directors.

Finally, the findings about the 7th co-operative principle, "Concern for the community", indicate that this principle was followed, up until the moment that the state became 99% shareholder in credit unions, something that may not be true in the future. The practical application of the principle, e.g., the provision of scholarships, contributions to charities, theatres and football clubs is in line with the existing literature (Jones, 1999; Papageorgiou, 2004; Crespi, Garcia-Cestona and Salas, 2004; CSSDA, 2005; Valor et al., 2007; Brannen and Ibrahim, 2010) and is common practice among credit unions. Based on the current study, a possible reason for the cessation of these provisions to the surrounding communities include the possibility that the control over related decisions has been passed from credit unions to the state, as it has become the major shareholder in credit unions. Additionally, the loss in community-related expenditure may be related to restrictions on expenses imposed by the state in the light of the repayment of the €1.5 billion, plus the 10% interest per annum. However, based on the current study's results it is not necessary for credit unions to donate (all the) funds themselves as this can be replaced by fundraising activities and volunteer work. As for the criteria to be used in deciding which branches to close down, the employees considered firstly the financial ones and then the social ones, whilst members considered firstly the social criteria, e.g., servicing of members, and then the financial ones.

Examining the results on all of the above six co-operative principles, the answer to the first research question is that both those employed and the members of credit unions consider that the 6th co-operative principle is followed whereas, the 5th co-operative principle has never been followed in practice. Additionally, in the past, four co-operative principles (1st, 3rd, 4th and 7th) were followed but now, due to the transfer of 99% of the shares to the state, it is feared that they will not be followed anymore. It must be noted that the negative responses should be explained in relation to the negative climate and the fear and uncertainty people felt, as a consequence of the financial crisis of March 2013, in Cyprus. These results therefore, support the notion that the non-adherence of the co-operative principles by credit unions could render their governance structure ineffective. These results are in line with those of Wilson and McLean (2012), that is, as time passes, the co-operative principles become less important for members.

7.3 2nd research question: "What are the perceptions regarding the active democratic participation of members?"

As discussed in Chapter 2, in addition to the need for co-operatives to adhere to their founding principles, members themselves must adhere to their co-operative as members' loyalty and active participation are vital for the effectiveness of the governance system of their co-operatives (Spear, Cornforth and Aiken, 2009), as well as for the overall success of their co-operative (Hakelius, 1996, cited in Bhuyan, 2007). "Democratic Member Control" entails that all members have the same voting rights, usually on the basis of "one-member, one-vote", but some members serve as elected representatives for the rest (Reynolds, Gray and Kraenzle, 1997; ICA, 2012a), rendering co-operatives "practicing democracies" (Papageorgiou, 2004, p.50). The distinctive character of a co-operative is created by the participation of members in its governance (Gray, 1998). In other words, members could be perceived as active actors that aim to improve their well-being (Vargo, Maglio and Akaka, 2008, Vargo and Lusch, 2011). Additionally, according to S-D Logic, credit unions must recognise that customers are co-creators of value and that their involvement must be maximised (Vargo and Lusch, 2004). As the customers/members are involved in value co-creation, according to their abilities and knowledge (Wind and Rangaswamy, 2001), co-operatives must find ways to engage with their members, for the long-term, enabling them to find out and then meet the changing needs of their members (Vargo, 2009, Vargo and Lusch, 2010).

The ultimate control over a co-operative is exercised by members during the AGM during which members exert control over management's decisions, decide on policy and other important issues (Papageorgiou, 2004; CSSDA, 2005). The most important aspect at the AGM is the participation, of most of the members, in the democratic procedures (Papageorgiou, 2004), e.g., ensuring that their co-operative has followed the co-operative principles (CSSDA, 2005). Active participation can be measured based on two axes: how many members are involved in relation to the membership base and how active they are (Birchall, 1997). Two of problems faced, in trying to increase people's motivation to participate, are people's belief that even if they participate they could achieve nothing and people's free riding (Edwards, 2013). In Cyprus, all decisions at the AGM are taken based on the notion of one-person, one-vote and management decisions are assessed by the elected Board members (CSSDA, 2005). Moreover, in Cyprus, all members of a co-operative have the right to elect and to be elected on the Board of Directors (CSSDA, 2005).

Co-operative members must understand that it is to their self-benefit and that of the wider society to engage and support their financial co-operative as this will ensure that the financial institutions will not engage in high risk activities (Alexopoulos and Goglio, 2011). The most effective way to deal with the above problems/challenges, i.e. of strengthening the co-operative governance structure, could be the solving of the free riding problem and hence convincing members to participate in the democratic control of the co-operatives (Itkonen, 1996; Spear, Cornforth and Aiken, 2007; Alexopoulos and Goglio, 2009; Spear, Cornforth and Aiken, 2009). Additionally, Hakelius and Hansson (2016) having studied the changes of members of Swedish farmer co-operatives in 1993 and 2013, suggest that co-operatives should adjust/update their governance in order to build and/or develop their members' trust. Moreover, co-operatives could increase the number of active members by, for instance, stimulating the use of mobile phones and the internet for banking activities (Spear, 2004a) as well as by promoting interaction through social media (e.g., Twitter, Facebook, blogs, online forums, scheduled chat sessions), having always in mind that smaller communities enhance people's feeling that their opinion counts (Edwards, 2013). Furthermore, based on data from the UK, co-operatives could promote membership, by introducing a dividend card (Spear, 2004a) or even by offering value for money quality financial products (Alexopoulos and Goglio, 2011). Additionally, to encourage members' participation in their co-operatives the power gap between co-operative leaders and members must be bridged (Birchall, 2003; Alexopoulos and Goglio, 2011) and this can only happen through long-term, focused training and education (Birchall, 2003; Papageorgiou, 2004; Xiang and Sumelius, 2010; Sacchetti and Tortia; 2012; Edwards, 2013), e.g., of younger people, building a sense of community (Edwards, 2013). Moreover, it is important for co-operatives to maintain their roots in and good knowledge of the local communities they operate in (Alexopoulos and Goglio, 2011). Finally, the problem of members' lack of participation could be overcome by the alignment of management's objectives to those of the co-operative (Sacchetti and Tortia, 2012) hence, increasing members' trust towards their co-operative. This is because, based on the results from a sample of 259 members in France in 2007- 2008, trust was considered as the cornerstone of the explanation of members' favourable behaviour towards their co-operative (Barraud-Didier, Henninger and El Akremi, 2012).

As members seem to be willing to bind themselves to democratic control if the reasoning for decisions is explained to them and they are given the opportunity to influence decision making (Osterberg and Nilsson, 2009), one of the most effective ways to increase the participation of members with their co-operatives is to promote democratic involvement (Osterberg and Nilsson, 2009). That is, co-operatives should encourage their members to participate in the co-operatives' management (Alexopoulos and Goglio, 2009; Xiang and Sumelius, 2010) and hence, exert real control over the members of the Board of Directors and management (Alexopoulos and Goglio, 2009). Moreover, members' participation could be enhanced by the alignment of management's objectives to those of the co-operative (Xiang and Sumelius, 2010), e.g., through the punishment wrongdoers or the implementation of suitable incentive schemes (Sacchetti and Tortia, 2012). Moreover, management should aim to balance the short-term benefits to members with the long-term survival of credit unions, e.g., by distributing part of the profits (Papageorgiou, 2004). Moreover, members' participation could be enhanced by providing adequate channels (Osterberg and Nilsson, 2009) for managers to communicate with members (Xiang and Sumelius, 2010) in an active way and by organizing debates between members and management (Sacchetti and Tortia; 2012).

Based on the data from both the individual interviews and the focus groups, it can be said that the 2nd principle is not followed. The credit union employees do not consider that there are a lot of members that participate in practice. More specifically the majority of the employees interviewed argued for a participation rate of less than 25% and only the minority of the employees considered that more than half of the members vote during the elections for the Board of Directors. These findings may be disappointing, but they have been confirmed by members and the statistics that the office of CSSDA has provided. Additionally, the results of the present study, confirm that the majority of members does not actively participate in their credit union (Spear, 2004a). This possibly indicates the beginning of co-operative's failure (Papageorgiou, 2004; Spear, Cornforth and Aiken, 2009). The above findings concur with the rest of the findings of the present research and especially the unwillingness of members to contribute financially to their credit union, in order to save its independence. Additionally, the data collected on the 2nd principle may be linked to the finding on the 5th principle, that is, that credit unions do not provide any co-operative-related training to their employees, Board of Directors, members, or the general public. As already discussed (Section 7.2.4), the lack of training could wipe off the important ideological differences between credit unions and other institutions, mistakenly rendering credit unions as normal economic organizations (Papageorgiou, 2004). In particular, in order to assess members' participation, three aspects of democratic member control are analysed below: participation in AGMs, members voting at the Board of Directors' elections and number of candidates in relation to the number of available positions in the Board of Directors.

7.3.1 Participation in Annual General Meetings (AGMs)

With regards to members' participation in the AGMs, almost half of the interviewees claimed that the percentage was between 0% and 1%, whereas a minority claimed that it was between 2% and 25%. On the other hand, only a very small number of interviewees argued that the attendance was high however, without specifying an approximate number or percentage. Moreover, there was very limited evidence that members were actively involved, with some interviewees arguing that those who attend AGMs are controlled by management and that only in very rare cases members asked for a topic to be included in the agenda of the AGM. The low participation of members was also confirmed through the data that were obtained from the office of the Commissioner of the Co-operative Societies Supervision and Development Authority, in September 2013 (Sections 5.9.11 and 6.4) and the responses of the participants in the focus groups. According to the data on seventeen credit unions, which were obtained from the office of CSSDA, the average percentage of members attending the last three AGMs of their credit union is just 8%, with four credit unions having an average of less than or equal to 1%. During the focus group interviews, participants said that they did not attend the AGMs because it was easier to free ride and the way they got invited was not such as to encourage their participation. Members set out a number of excuses for not attending, including lack of time, having other things to do, laziness, not being interested in the topics discussed, indifference, trust in their representatives and long distance to the venue where the AGM was held.

This low participation of members in Board elections is not in line with the literature that assumes that it is the majority of members that interact with their co-operative (Jones, 2001; Fonteyne, 2007). However, the results of the present study coincide with those of Spear (2004b) who found that, in 2001, in Democratic, Member-based Organisations (including co-operatives) in the UK, only around 3% of members attended and voted at AGMs. Similarly, in 2007, only 3,6% of members attended the meetings of the Swedish Farmers' Supply and Crop Marketing Association (Nilsson, Kihlen and Norell, 2009). Furthermore, the members' participation at the General Meetings of Spanish Credit Co-operatives, in 2004, was only 6.1% (Chaves, Soler and Sajardo. 2008), whereas in Mondragon Corporación Cooperativa in 2002, it was only 38% (Bakaikoa, Errasti and Begiristain, 2004).

7.3.2 Members voting at Board of Directors' elections

Based on the data from the individual interviews, it has been found that employees do not consider that it is the majority of members that participates in the elections for the Board of Directors. This is because the vast majority of interviewees claimed that the participation of members was less than 30% (or even less than 25%), with the minority supporting that the participation was more than 50%. The results of the focus groups coincide with those obtained from the interviews as they considered that only a 30%- 40% of members actually vote during the Board of Directors' elections. Specific participants stated that, as members, they had an obligation to attend the voting, but they voted only when someone they knew was running as a candidate. Finally, a participant specifically said that he was not aware of the percentage of members that voted, simply because he did not attend the elections himself. The data from the office of CSSDA (Section 6.4) also confirmed the results of the individual interviews and the focus groups. That is, for a sample of twelve credit unions the percentage of members that voted at the last three Board of Directors' elections was just 7% with five of these credit unions having an average participation of less than 3%. These findings are in line with similar findings, for example 1%- 5% in consumer Co-operatives rendering the elected Board of Directors unrepresentative of membership (Itkonen, 1996; Spear, 2004b).

7.3.3 Number of candidates Vs. available positions

With regards to the number of candidates in relation to the available positions for the Board of Directors' elections, the interviewees replied that the number of candidates is approximately twice the available positions. However, some interviewees argued that no elections were held for a number of years, as the number of candidates exactly matched the number of available positions. Additionally, some interviewees said that they did not have contested elections, as they had the same people on the Board of Directors for a number of years, e.g., for a decade (in Cyprus, the Board of Directors can serve for an unlimited number of three year terms three years). These results were confirmed by the focus groups, during which the members argued that they are not interested in getting elected at the Board of Directors and that 1- 2 candidates run for each available position.

It has been pointed out that a possible reason for this could be that the political parties agree on the names of the candidates rendering very difficult, if not impossible, for anyone who runs as an independent candidate to get elected. Additionally, it seems that the existing Board members have a clear advantage over newcomers as the former know "all the tricks of the trade" and have already spent considerable amount of time visiting the working places and talking with their colleagues/voters. Finally, even if the newcomers believed they could do much better than the existing Board members, they were very reluctant to stand as candidates, as they risked losing face if they did not get elected. The above findings were also confirmed by the data that were obtained from the office of the CSSDA (Section 6.4), which showed that the average number of candidates in the previous three elections is only 1,5 times the available positions, with four credit unions having just enough candidates to fill in the available positions (and hence no elections took place). In only two out of the nineteen credit unions, from the CSSDA sample, candidates were more than double the available positions (i.e. one credit union with 2,6 candidates per position and the other with 2,8 candidates per position).

The above results are not supported by the available literature which assumes that it is the majority of members that participate with their credit union, including voting at the Board of Directors' elections. However, the low participation of members in the elections of the governing body concurs with the findings of Novkovic (2006), who claims that very low participation was evident in large financial co-operatives. Nevertheless, when a need arises, members become involved in their credit co-operative, a finding that coincides with that of Chaves, Soler and Sajardo (2008). Similarly, Spear (2004b) argues that contested elections allow real choice to members enhancing the representativeness of the Board of Directors. Based on this, it may be said that in the case of the credit unions under study, the Board of Directors were not representative of the membership and that members did not have real choice during the elections. Finally, the long tenure of the Board of Directors has also been identified by Cabo and Rebelo (2014) who argue that, in Portugal, there is no upper limit for the mandates' number and hence, the majority of Board members remain in office for decades. As the role of the Board of Directors is very important, the next section will provide further discussion on the role of the Board of Directors. Hence, there will be a discussion of matters pertaining to participation whilst, summarizing the related findings of the present study and that of the available literature.

7.3.4 Participation and the role of the Board of Directors

As discussed in Sections 2.2.3, 2.2.4, 4.2, 4.3 and 4.4.6, the Board of Directors is elected amongst membership (Bijman, Hanisch and Sangen, 2014), and in small credit unions it has all executive powers and is engaged in its day-to-day operations (Spear, Cornforth and Aiken, 2007). As credit unions grow, salaried management is introduced, ensuring the implementation of the Board of Directors' decisions (Chaddad and Iliopoulos, 2013). At a later stage, salaried management takes on all decision-making and the Board of Directors undertakes a more strategic role, controlling management on an ex-post basis (after decision making) (FSA, 2007; Bijman et al., 2012a; Mswaka and Aluko, 2015). Apart from the literature review above, the author served as a General Manager with a large Cypriot credit union (from March 2008 to December 2011); it was common practice for the Board of

Directors to engage in both operational and strategic decision making. This included decisions regarding new membership applications; the granting of overdrafts; credit card and loan applications; and matters relating to loan terms, collateral and interest rates. Moreover, the Board of Directors also took responsibility for scholarships, donations and staffing. The General Manager was primarily responsible for staff supervision, development and performance, as well as the day-to-day management. This was the typical scenario within the credit union industry until the Supervisory Body (CSSDA), together with the Apex organisation (Co-operative Central Bank), reviewed corporate governance requiring unions to ensure the General Manager was a full member of the Board of Directors (around 2010). Additionally, all decisions regarding loans, credit cards and overdraft facilities were transferred to a dedicated staff committee led by the General Manager. The author notes these changes were not generally welcomed by the Board and they maintained sole control over recruitment, scholarships and donations, as they were outwith the CSSDA/Apex review. Indeed, the Board blocked moves to bring in performance appraisal and greater budgetary autonomy. Returning to the literature review, it is suggested that due to the different roles that the Board of Directors is called to fulfil, e.g., to control management (principal- agent theory, democratic perspective and stakeholder theories), to be supportive and partners with management (stewardship theory) (Cornforth, 2002; 2003; 2004), tensions are created, rendering the role of the Board of Directors more complicating and demanding. This is also worsened by the ambiguous and/or multiple accountability of the Board of Directors (Cornforth, 2002). At the same time, the part-time status and the lack of salary, as opposed to the full-time salaried status of management (Cabo and Rebelo, 2014; Mswaka and Aluko, 2015), renders the Board of Directors “dependent” on management for information and suggestions. Some researchers argue that the Board of Directors merely “rubber stamps” management’s decisions (Itkonen, 1996; Spear, Cornforth and Aiken, 2007). Moreover, the fact that the rate of renewal of the Board of Directors is very low, may mean that any inter-relationships among them and management cannot be prevented entirely (Chaves, Soler and Sajardo, 2008). Possible remedies of the above problems could be the training of the Board of Directors, enriching their related knowledge and skills (Shaw, 2007) and by permitting to non-members experts to become Board members (Bijman, Hanisch and Sangen, 2014).

The findings of the present study confirm those of previous research indicating that members are not actively involved with their credit unions and that they lack interest in attending AGMs, voting for and standing for election to the Board of Directors. For example, only 1%- 5% of members of consumer co-operatives vote during the Board of Directors' elections, rendering the elected Board of Directors unrepresentative of membership (Itkonen, 1996; Spear, 2004b). Additionally, the low participation of members is true also for their attendance in AGMs. For example, only 30% participate in AGMs of Mondragon Corporación Cooperativa (Bakaikoa, Errasti and Begiristain, 2004), in Sweden in 2007 it was only 3,6% (Nilsson, Kihlen and Norell, 2009) and in UK in 2001 the participation in AGMs was only 3% (Spear, 2004b) (Section 3.4). This low member participation effectively permits the fall of the co-operative in the hands of an "elite" group or in the hands of management (Itkonen, 1996; Papageorgiou, 2004; Spear, 2004a; 2004b; FSA, 2007) (Section 2.2.4).

It should be stressed here that members delegate/pass on their right to control management, and the operations of their credit union, to the Board of Directors who act as fiduciaries (Mswaka and Aluko, 2015) for (existing and future) members as a body. Based on this delegation, the Board of Directors also becomes responsible for matters pertaining to members' participation. What the present research adds is that focus group participants consider that as long as members are happy with their Board of Directors, they will not participate in their credit union (Section 6.5.2). This finding coincides with that of Bakaikoa, Errasti and Begiristain (2004). Additionally, the present research identifies the side effects from the involvement of political parties in selecting candidates for the Board of Directors' elections, i.e. fear and risk of humiliation for the independent candidates (Section 6.5.2). Moreover, this thesis notes that the membership contributes little by way of formal inputs to AGM's, even when they feel strongly about an issue they tend to let it pass, having no faith that their views will be considered. To this effect, the present study's findings indicate that the Board of Directors could use today's technologies, e.g., social media, chat rooms, remote voting, on-line broadcasting of the AGMs in order to encourage members' participation (Section 7.3). There is evidence that technology can assist in maintaining membership participation, as can a determination to ensure engagement through more traditional means; examples of such practice is provided below. However, this research did not identify a commitment by the Board to engagement, nor a desire to explore alternative means of encouraging participation. As noted, this research calls for a greater consideration of how best to enhance participation and meaningful engagement.

The renewed Co-operative Group UK has undertaken a number of measures to enhance the participation of its members. These include, the highlighting of the members' ability to have their say on business matters during the AGM, their ability to join other members in undertaking initiatives for the benefit of the local community, as well as to stand for election and; to elect member-nominated directors and their council representatives (Co-operatives UK, 2017a). The Co-operative Group UK has created an elected 100 strong Members' Council, which also has representation from colleague members and independent co-operative societies (Co-operatives UK, 2017a). The role of the members' council is to maintain the Co-operative Group UK's principles, values, purpose and the constitution, as well as holding the Group's Board of Directors to account (Co-operatives UK, 2017a). In order to encourage interest in becoming Council members, the Co-operative Group UK is offering an annual fee of £3,000 as well as covering travelling expenses, granting an employee discount card and offering dependent carer and childcare allowance for attending meetings (Co-operatives UK, 2017a). The Co-operative Group UK has also created the Council Senate which consists of 15 members of and elected Members' Council (Co-operatives UK, 2017a). The Members' Council Senate links the Members' Council, the Board of Directors, the executive director and the members of the Co-operative Group UK (Co-operatives UK, 2017a). Moreover, the Co-operative Group UK has introduced 4 Member Nominated Directors to its Board of Directors who must possess the relevant level of experience and skills (Co-operatives UK, 2017a).

Finally, the Co-operative Group UK has created the Young Members' Board which in turn created a manifesto for young people. The manifesto sets out six areas where youth innovation and creativity can assist the co-operative movement (Co-operatives UK, 2017b). These areas include: (a) product and service development, (b) democracy building, (c) challenging perceptions, (d) investment in their future, (e) setting out their vision and (f) leading the way (Co-operatives UK, 2017b). The manifesto site mentions that there were 300 candidates for each position and states that "*when an opportunity is attractively marketed to younger people they will seize the chance to make their voice heard*" and also "*when young people are engaged with effectively, they will get involved*" (Co-operatives UK, 2017b). The above measures undertaken by the Co-operative Group UK demonstrate that members, when genuinely encouraged to engage, will welcome the opportunity to be involved. Indeed, the engagement goes far beyond the AGM and illustrates what can be done by Boards to reach out to and utilise the membership (Co-operatives UK, 2017b).

Cypriot credit unions may not have the resources to emulate the Co-operative Group UK's endeavours, however, they can do much more to reach out to the membership and create active and eager advocates/ambassadors. Members need genuine encouragement to get involved, something that can be achieved through other active members, Board members, management and employees. Credit unions can implement a number of different strategies and through feedback and trial and error find which is best suited. Credit unions must listen to existing and potential members to shape their product portfolio that creates value for the membership.

However, even if the Board of Directors was more actively involved in encouraging members to participate the impact may not be that great. According to this study's findings, as well as Chaves, Soler and Sajardo's (2008), this is due to the fact that society has changed and cohesion/collectivism have been replaced by self-interest (Section 6.2.4) and that nowadays citizens are passive (Bakaikoa, Errasti and Begiristain, 2004) giving rise to even more member alienation. For example, the present study has identified that focus group participants supported that they did not attend the AGMs because of lack of volunteerism and absence of younger generations who have interest in the founding ideas of credit unions (Section 6.5.2). At the same time, both interviewees (Section 6.2.4) and focus group participants (Section 6.5.2) said that, as members, they would stop free riding and actually actively participate in their credit union in cases where they felt that their personal interests were hurt. As evidenced in the next section there are a number of reasons for members' lack of participation.

Please note that this is not to say efforts should not be made to engage, but rather given the evidence presented in the following sections, it will require considerable effort and time to restore a sense of self benefit rather than at present a culture of self-interest.

7.3.5 Possible reasons for the lack of members' participation

Two reasons for members' lack of participation in their credit union were raised by the interviewees: members feel that they are not able to influence the decisions of the credit union and they are dissatisfied with specific decisions of their credit union. This was also identified by Hakelius and Hansson (2016) who concluded that even though members believe in the idea of co-operatives, nevertheless, members trust co-operatives less than before. This may be because co-operatives do not respect and do not take seriously the democratic rights of members or because of the general attitude change towards the individualistic rather than the common benefit (Hakelius and Hansson, 2016). Moreover, people's belief that, even if members participate, they could achieve nothing was also identified by Edwards (2013) and by Wind and Rangaswamy (2001). The latter specifically claim that credit unions should give more control to their members, in order to effectively become agents for the members' value creation activities. Additionally, Bhuyan (2007) found that members' dissatisfaction with the management of their credit union increases disloyalty and that those who feel that their opinion is not taken into account by management are more likely to exit the co-operative. Similarly, as co-operatives become large, management must assume more responsibility thus, members feel that they can no longer control their co-operative, they become dissatisfied and they distant themselves (Nilsson, Kihlen and Norell, 2009). Furthermore, based on the individual interviews, one more reason for refraining members from participating in their credit union could be the loss of the credit unions' local identity due to the mergers, reducing the homogeneity of members and their social cohesion, issues that were raised also by Birchall (1997) and Nilsson and Svendsen (2011).

In examination of the data from both the individual interviews and the focus groups, another possible reason for the lack of participation of members with their credit union, could be that members "free ride" or are just too busy living their lives that they consider engaging with their credit union a luxury. The problem of free riding of members was also identified by Hakelius (1996, cited in Bhuyan, 2007) and Edwards (2013). Moreover, another possible reason, mentioned during the focus groups, was the older age of the majority of the Board of Directors, seeing things from their own perspective and wanting to obtain the benefits of membership as soon as possible, an issue known as "horizon problem" (Section 1.3.2). One focus group participant, in particular, argued that their credit union did not manage to attract new (and younger) members, something however, that did not seem to concern the Board members. This finding is in line with those of Osterberg and Nilsson (2009) and Borgen's (2004), which indicate that older co-operative members may free ride or exit altogether due to the shorter investment horizon they face. However, this finding is opposite to what EACB (2010) claims, that is, the client/member governance structure of co-operatives enforces a long-term horizon upon members.

The focus groups and interviews results also indicate that members may not participate because the way they get invited does not encourage their participation and that credit unions do not create nor do they take advantage of every possible opportunity to communicate (face-to-face), to socially interact and to exchange information with their members (identified also by Barraud-Didier, Henninger and El Akremi, 2012). The lack of participation of members, caused by the improper communication between the credit union and its members was also raised by Hakelius (1996, cited in Bhuyan, 2007), Birchall (1997), Prahalad and Ramaswamy

(2000) and Payne et al. (2009), indicating that the organisation should provide enough opportunities to its members to emotionally engage with their credit union. More specifically, Payne et al. (2009) highlighted that the lack of encouragement of customers/members to engage with the organisation results to their lack of participation and knowledge about the organisation's service. Hence, the organisation loses contact with its members, is not able to learn about their needs and consequently loses the opportunity to serve them.

Another possible reason for members' lack of participation that was raised by both members and employees was the involvement of political parties in credit unions. That is, political parties play a role in deciding which candidates to suggest for the Board of Directors' elections and which employees to hire (raised in the focus groups). In particular, one interviewee mentioned that only when the political parties were involved, there was a high member attendance in elections, indicating that it was the former and not the credit union that mobilized the members. These findings concur with the existing literature as it was noted that political influence affects the direction and the management of a co-operative financial institution (Korres, 1999; Stefancic, 2011). The involvement of political parties could also contribute to the low rate of renewal of the Board of Directors, leading to inter-relationships among them and management (Chaves, Soler and Sajardo, 2008). On the other hand, these results do not coincide with Papageorgiou's (2004) argument that co-operatives should remain independent of political parties as this could break up any co-operative to many smaller groups, and thus weaken it. Based on the above findings, it can be said that credit unions may have fallen in the trap of depending on political parties for their decision-making, rendering the former vulnerable towards the latter and thus leading to the alienation of members.

Another possible reason for members' lack of participation could be the mismatch of what credit unions offer with what their members actually need. This could be caused by lack of innovation (Lusch et al., 2007) or lack of update/upgrade of their own competencies, e.g., expertise, technologies and techniques (Normann and Ramirez, 1993; Jones, 2004; Jones and Ellison, 2011; Jones, 2012; ABCUL, 2013;

Jones, 2016), in adjusting themselves to support the co-creation activities of its members (Prahalad and Ramaswamy, 2000; Payne et al., 2009; Lusch, Vargo and Tanniru, 2010). Additionally, credit unions' offerings could be outdated because they do not look outside their comfort zone (Normann and Ramirez, 1993; Lusch et al., 2007). In other words, what they offer is not tailor-made or adjustable to the changing needs of their members (Prahalad and Ramaswamy, 2004). However, if a credit union does not come closer to its members and their needs, then it will not be able to prepare value propositions that are accepted by its members (Payne et al., 2009). On the other hand, the mismatch of what credit unions offer with the needs of their members could have been caused by the lack of initiatives, on credit unions' behalf, to face the new reality. In this reality, members are viewed as operant resources (Lusch, Vargo and Wessels, 2008), they are better informed (Payne et al., 2009), more demanding and more active in the co-creation of value that will enhance their well-being (Prahalad and Ramaswamy, 2000; Normann, 2001). Credit unions may have failed to realize that, in this new reality, they just offer value propositions (Vargo and Lusch 2004a; Spohrer and Maglio, 2010) and it is up to the customer/member to determine the value (if any) of what the credit union offers and whether to accept or to reject it (Spohrer and Maglio, 2010).

Finally, and further to the discussion above and on the similarities between co-operatives and S-D Logic in Section 2.4, a possible reason for members' lack of engagement with their credit unions could be that the latter do not provide service that meets the needs of their members. This means that only if existing and potential members consider that a specific credit union can positively contribute to their co-creation activities, will they use its service, otherwise members will add other organisations to their value creation constellations. Hence, credit unions should find ways to be of use to existing and potential members, for example, by including the credit union in their value creation activities (Vargo and Lusch, 2004). In other words, credit unions must understand that it is members who decide whether a credit union's offerings are of value or not (Maglio et al., 2009; Lusch, Vargo and Tanniru, 2010; Lusch and Vargo, 2011). Moreover, credit unions should offer their members new ways to co-create value and give them as many opportunities as possible to create meaningful/memorable experiences with their credit unions (Payne et al., 2009). Finally, credit unions could give to their members more control over the whole process (Wind and Rangaswamy, 2001), making them feel that they really own their credit union.

It could be the case that, initially members came together to create credit unions to assist themselves in enhancing their well-being and to combat opportunism and financial exclusion. Being actively involved in the day-to-day operations of their credit union, members were eager and committed to co-create the service that would meet their demands and expectations. However, as the number of members increased and credit unions became larger and larger, members were less and less engaged with their credit union, especially as professional management entered the picture. Over a certain size, members became even less engaged with their credit union, with professional management becoming even more pre-occupied with day-to-day operations and even less concerned about members and their needs. This has allowed the fall from tailor-made and purpose-made service to meet the needs of specific members to financial products that were mass-produced and directed to any customer. However, this move has led to even more member alienation, depriving credit unions from their constant contact with members, rendering credit unions incapable of knowing what members need and how to deliver it to them. With hindsight, this could mean that as long as members received service that was custom-made and for which they were co-creators, both members and credit unions thrived. However, credit unions' move from co-created service to mass-produced financial products (of the one-size-fits-all type) caused members alienation resulting in credit unions being disconnected from their membership. This situation, confirmed by the present study's findings, became even worse when professional management and staff was introduced resulting in even more member alienation.

To summarize, it seems that indeed there are a number of different reasons for members' alienation. These include the change of societies to more self-centred ones, with members free-riding and the Board of Directors having a limited number of ways to (partially) influence this trend. The subsequent involvement of political parties and the lack of credit unions' technological advancement have both had their toll. However, the biggest effect on members' lack of participation seems to be credit unions' move from custom-made service that was co-created with their members for their members' specific needs to mass-produced financial products that had limited (if any) room for customisation. This has removed members and their needs from the center of attention of credit unions, stripping the latter from their differentiating factors and rendering them just another provider of financial products. However, this has resulted in even more member alienation, has stopped members from treating credit unions as theirs and hence, members started giving more emphasis on their personal interests and not on their common good.

In conclusion, it can be said that based on the data obtained in the present research, the answer to the second research question, "**What are the perceptions regarding the active democratic participation of members?**", is that members seem not to be engaged with their credit unions and that it is not the majority of members that actively participate in the running of their credit union.

7.4 Conclusions

Analysing and discussing the data obtained through the individual interviews, the focus groups and the data from the office of the CSSDA, it can be concluded that the 2nd and 5th co-operative principles are not followed in practice by credit unions. However, the 6th principle is followed, while the 1st, 3rd, 4th and 7th principles used to be followed, but as a result of the financial crisis and the granting of 99% shares in credit unions to the Cypriot state, these may not be followed in the future. The above results are not in line with the literature that supports that credit unions adhere to their founding principles, which they apply in their day-to-day operations, and that members are active in controlling their credit union. At the same time, though, the findings concur with previous academic research regarding the non-adherence of credit unions to their principles, e.g., because as time passes, the co-operative principles become less important for the co-operators (Wilson and McLean, 2012). Similarly, the fact that members refrain from participating with their credit union coincides with the literature that indicates low member participation in the control of credit unions, especially larger ones (Bakaikoa, Errasti and Begiristain, 2004; Spear, 2004b; Chaves, Soler and Sajardo, 2008; Nilsson, Kihlen and Norell, 2009). More specifically, in examination of the findings and the existing literature, the following conclusions and suggestions may be drawn about each of the seven co-operative principles, as seen below.

With regards to the 1st co-operative principle, “Voluntary and open membership”, the results have shown that that this principle may not be valid anymore due to the state becoming 99% owner in credit unions. It is the personal opinion of the author of the present study that credit unions should engage in a campaign to attract new and preferably younger members, maintaining, at the same time, the existing members. However, this can be achieved only in combination with the 5th co-operative principle, “Education, training and information”, so that younger people learn, and existing members are reminded, about the distinctive characteristics of credit unions.

As far as the 2nd co-operative principle, “Democratic member control”, is concerned, it was found that handing 99% of the credit unions’ shares to the state has created serious concerns about the ability of members to control their organisations. Credit unions, in close co-operation with the state, should find ways to ensure that, even during this phase where the state is the owner of credit unions, members control their credit unions.

Moving to the 3rd co-operative principle, “Member economic participation”, it may be suggested that credit unions strive to increase their capitalization through members. It is of great importance that this specific principle is also applied in combination with 5th co-operative principle. Members should understand the distinctive nature of credit unions and, at the same time, credit unions should pay the appropriate interest rate in order to attract this additional capital. For example, and to the extent that this is acceptable by members, credit unions could pay no dividends to members, could increase the difference between interest paid on deposits and interest received on loans, as well as increase the bank charges for as long as needed, in order to be able to repay the state the €1,5billion plus the 10% interest per annum.

In examination of the 4th co-operative principle, “Autonomy and independence”, both interviewees and participants indicated that that credit unions lost their autonomy and independence the same moment that the state became 99% owner of the shares in their credit unions. It is suggested that credit unions should attempt to gain back their shares, while, in the meantime, being in close co-operation with the state, ensuring that credit unions are quasi-autonomous and quasi-independent, of course keeping in mind the limitations set out by the agreement of the Cypriot state with Troika.

With regards to the 5th co-operative principle, “Education, training, and information”, the results of the present study indicate that credit unions do not provide any co-operative-related education to either their employees or their members. In some cases, credit unions may have provided such training to their employees but this was a long time ago. Additionally, the author of the present study considers that credit unions should use every available opportunity aiming at coming closer and communicating with its existing and potential members. Furthermore, credit unions could increase the cohesion among members, through the provision of co-operative-related training.

Additionally, as seen from the findings on the 6th co-operative principle, “Co-operation among co-operatives”, credit unions collaborate amongst them in the form of mergers. This kind of co-operation could create constellations/networks (Prahalad and Ramaswamy, 2000; Vargo, 2009), and hence, improve credit unions’ offerings, rendering them more attractive to existing and potential members (Normann and Ramirez, 1993; Normann, 2001; Spohrer et al., 2007; Vargo, Maglio and Akaka, 2008). Additionally, it is also advocated that credit unions could use the Co-operative Central Bank as a facilitator for the transfer of know-how, could ask for the assistance of the co-operative College in the UK or any other co-operative institution that may assist them in specific areas.

Finally, in terms of the 7th co-operative principle, "Concern for the community", it was indicated by the interviewees that every possible effort should be taken by credit unions to assist the local population, e.g., by keeping branches in remote areas open, even if this is only for a few days per month. Additionally, the focus group participants argued that credit unions could organize various events, e.g., lottery, fun days aiming at collecting money for charity or could undertake community work in order to assist the surrounding communities e.g., cleaning a park or a beach.

Overall, a key theme that is present throughout the literature review and the findings is that of trust. As seen in Section 1.1, credit unions are exceptional in maintaining longer-term relationships of trust with their members (Bijman et al., 2012a; 2012b; Borzaga and Galera, 2012; Ferri, 2012; Sabatini, Modena and Tortia, 2014). Additionally, in Section 4.4.3, there was a claim that the presence of co-operatives in a market forces other organisations to behave in a more trustful way (Feinberg and Rahman, 2006; Hesse and Čihák, 2007). Moreover, trust was identified as a key ingredient for the creation of co-operatives in the first place (Karafolas, 2005). Additionally, it was noted that the advantages of co-operatives over other forms of organisations are valid only when members trust their co-operative (Spear, 2000). Trust also seems to be the pre-requisite for the proper functioning of the Board of Directors (Section 2.2.3) as they act as fiduciaries, i.e. they hold the assets of the organisation (Mswaka and Aluko, 2015), as well as its undistributed reserves (Section 2.3 -intergenerational endowment- (Birchall, 1997)) in trust of the next generations. Based on the results of the present study, trust is considered by individual interviewees as an important ingredient for the proper functioning of the financial system (Section 5.2), especially during the period after the financial crisis of March 2013. Particularly, credit union employees considered that members would not be willing to financially contribute to their credit unions because they lost their trust in the whole financial system. Moreover, trust in the Board of Directors was mentioned by focus groups participants as one of the reasons for their lack of attendance of their credit union's General Meetings (Section 6.5.2). On the other hand, some focus group participants claimed that their trust in their credit union had fallen due to its inter-dependence on all other credit unions, while other participants noted that their credit union could regain their trust in the future, especially if those that caused the financial crisis were punished (Section 6.5.4). Moreover, the adverse opinion towards the mergers amongst credit unions (Section 6.5.6) was considered as being due to the lack of trust among the members of various credit unions (Gall and Schroeder, 2006). Based on the above, it could be said that trust is gained through the contact of members with their credit union and its Board of Directors and that it is fostered by co-operative-related training. In the past, members used to trust their credit union but due to the financial crisis of March 2013, the deposit haircut, the decrease in salaries, the loss of jobs and the related fear and uncertainty that was created, members have (partly) lost their trust in the whole financial system and consequently in their credit unions. What is more, the transfer of 99% of the credit union ownership to the state may have been the "the straw that broke the camel's back".

The financial tragedy in Cyprus, in March 2013, could have acted as a multiplier of the negative feelings expressed by those interviewed and focus group participants, but these problems must have existed well before March 2013, something that has been confirmed by the Independent Commission on the Future of the Cyprus Banking Sector (Central Bank of Cyprus, 2013). Additionally, the creation of a holding company (where all members were transferred granting them only 1%) and the handling of the 99% of the shares in credit unions to the state, following the injection of €1,5billion to the Co-operative Central Bank, may have also increased the negative feelings and pessimism among the participants of the present study. However, based on the data collected, the author of the present study considers that in the past, credit unions were much closer to their founding principles and this is evident by the high number of older people that are members of credit unions. Additionally, in the past credit unions must have been more active in educating members and, non-members alike, regarding their distinctive features.

This may be proven by the number of credit unions that were founded in those early years, in contrast to the lack of founding any new credit unions in more recent years. It seems that credit unions must have played a significant role in the communities in which they were operating, as according to a particular focus group participant, “30- 40 years ago people in the villages only had their church and their credit union”. However, this has changed as credit unions have become larger, have lost their roots in local communities and have stopped educating their stakeholders. The lack of education of their Board of Directors, management, employees, members, governmental agencies and society in general, about the distinctive aspects of co-operatives, could have rendered credit unions just another financial services provider. Furthermore, social cohesion has been lost and it was replaced by the many and heterogeneous interests of individuals. This loss of cohesion has allowed individual members to become distant in relation to their credit union, believing that others will control it, and focusing on their own needs and demands. Similarly, the credit union Board of Directors, as a result of the low pressure from membership, could concentrate in meeting the demands of those that were still involved in a specific credit union, thus, creating an “elite” group (Itkonen, 1996; Birchall, 1997; Papageorgiou, 2004; Spear, 2004a; 2004b; FSA, 2007) and downgrading the need to maintain an effective governance structure. Furthermore, lower pressure by membership and less control from the Board of Directors, doubled by an outdated governance structure, could have allowed “too much latitude to management” (Kelly, 2014, p.10), who found the opportunity to pursue their own interests and agendas (Shaw, 2007; Alexopoulos and Goglio, 2009; 2011). An additional consequence of the lack of co-operative-related education is the ageing of members, as fewer younger people become members in credit unions, creating concerns about the long term viability of credit unions. However, now that the financial crisis had its toll on society, people are looking for ways to strengthen their voice and demand lower interest rates and fresh capital in order to create new businesses for them and their unemployed children. Once again, money-lenders and merchants rule the game, reducing even more, the disposable income of people. It could be concluded that the conditions today are not very different from those that existed a hundred years ago, rendering strong credit unions that focus on their members' needs, an urgent necessity. The high number of university graduates and the advances in technology, making information readily available, will multiply the effort that credit unions will invest in providing co-operative-related education to young people. Additionally, the tough conditions following the financial crisis of March 2013 may have reminded people about the benefits of solidarity and cohesion thus making them more acceptable to the ideas that credit unions promote: co-operation with others for the common benefit. Thus, what is needed is the acknowledgement of the difficult situation (lack of young members, concerns about the financial viability of credit unions and fears of credit unions' transformation into investor-owned banks) by those in control of credit unions and the aiming at a two-fold objective.

The first objective is external, by investing in educating the society about the benefits that credit unions can offer to people, encouraging them to become members and participate in the their credit union. By doing so, the stakeholders of credit unions will remember/learn about the credit unions' distinctive features, which differentiate them from all other providers of financial services. The ideology behind co-operatives should not be forgotten as this will remind members that a co-operative is a collectively-owned organisation that provides protection to its members' (financial) investments (Borgen, 2004). Thus, this collective ownership will have a higher, overall value than those that for-profit and investor-owned organisations offer. Credit unions could encourage the participation of members, discover their needs and how to best meet them by using all possible channels (face to face meetings, official/unofficial gatherings, blogs, emails, forums, Facebook, tweeter). By doing so, the credit union will be assisting its members in their value creation exercises thus improving their well-being (Vargo, Maglio and Akaka, 2008, Vargo and Lusch, 2011). The longer members become distant, the fewer opportunities the credit union has to engage with them in order to offer members value propositions that will be of interest to them (Prahalad and Ramaswamy, 2004). In other words, credit unions cannot survive or succeed in the future unless they get their members involved (Vargo and Lusch, 2004).

The second objective is the implementation of the basic ideas of S-D Logic. The author of the present study considers that S-D Logic has many things in common with co-operatives (Section 2.4 and 7.3.4) which credit unions can implement in order to come closer to their members, to form partnerships/constellations with them, to find out about their members' needs and to set up financial products that serve the exact needs of each and every member. Following, the discussion of each FP shows in more detail how the present study contributes to practice as well as the existing literature.

Taking the first of the ten principles of S-D Logic from Table 2.1, titled "Fundamental Premises of S-D Logic and their explanation" in Section 2.4: *"FP1 Service is the fundamental basis of exchange, i.e. the application of operant resources (knowledge and skills), "service," is the basis for all exchange. Service is exchanged for service" (*Vargo, 2009). FP1's emphasis on knowledge and skills seems very similar to the provisions of the 5th co-operative principle, "Education, training and information", credit unions could carry out focus groups and host competitions for children, thus creating memorable positive experiences, for these kids with credit unions. Additionally, credit unions could provide one-to-one counselling and/or mentoring to new employees as well as periodic and ad-hoc training, e.g., at the Co-operative College, where their input will be required in order to put the co-operative principles and values in practice. What is more, credit unions could engage in the training of existing and potential members by creating focus groups or workshops designed in increasing their awareness of the co-operative principles and values and co-operative difference.

Going to *FP2: "Indirect exchange masks the fundamental basis of exchange, i.e. goods, money, and institutions mask the service-for-service nature of exchange" (*Vargo, 2009**)**. This is, maybe, the reason for credit unions' loss of sight of their members. Even though at the beginning credit unions were indeed membership focused and provided tailor-made service (singular) to each of their members, during the years they have started drifting towards mass produced services (plural) that aimed more in achieving economies of scale rather than satisfy the needs of individual members. That is why, credit unions must return back to their basics and their focus on membership.

With regards to *FP3: "Goods are distribution mechanisms for service provision, i.e. goods (both durable and non-durable) derive their value through use - the service they provide" (*Vargo, 2009). This however is very similar to credit unions' core understanding, i.e. the value is gained from interacting/doing business with the credit unions and not through the appreciation of members' investment in it. Thus, the more a member interacts with his credit union, the more he gains. This could mean that it is also in the members' benefit to be in close co-operation with their credit unions. Additionally, credit unions should treat financial products, e.g., current accounts, loan facilities, credit and debit cards, for what they are; that is, products through which credit unions provide service to their members. Hence, credit unions should make an effort to increase the quality of their service to members, for example, through the design of better products that better meet the needs of each of their members. What credit unions should not do is to provide products for the sake of having a range of products, forgetting that these are merely the vehicles through which credit unions service their membership. So, custom-made products are desirable as long as these assist credit unions in providing better service to their members.

Moving on to *FP4: "Operant resources are the fundamental source of competitive advantage, i.e. the comparative ability to cause desired change drives competition" (*Vargo, 2009). The most important operant resource for credit unions is their employees as they depend on them in serving membership, in identifying members' needs and providing ideas, as well as in suggesting solutions for meeting these needs. The better trained and the more skills and knowledge credit union employees have, the better the quality of the service they will provide to membership. This is why the specific fundamental principle goes hand in hand with FP1's emphasis on knowledge and skills and the 5th co-operative principle "Education, training and information" as discussed above.

As far as the FP5 is concerned: *"All economies are service economies, i.e. service (singular) is only now becoming more apparent with increased specialization and outsourcing" (*Vargo, 2009). Credit unions have traditionally focused in retail banking, by servicing the individual members and their businesses something that still applies to most credit unions today. Credit unions were almost never interested in serving big companies or multinationals, but were founded in order to serve their membership. This means that credit unions have always specialised in retail banking, something that has provided them with deep tacit knowledge and knowhow in dealing with individuals (their membership). It seems that if credit unions use their specialization in serving the needs of their membership and they fortify this with even better training and even better product development, then credit unions can become much more useful to their members as they will better meet their needs.

In the case of *FP6: "The customer is always a co-creator of value, i.e. implies that value creation is interactional" (*Vargo, 2009). This is also fundamental for credit unions, as they are created by their members to serve their needs and to enhance their socio-economic standing. When credit unions are created, members are directly involved in its day-to-day running and hence their needs are perfectly matched. Things start to differentiate once salaried management is introduced and members depend on their elected Board of Directors. But even in these cases, members can stir their credit union by putting pressure and holding management accountable during the AGM. However, when credit unions become geographically dispersed and their membership becomes diverse then solidarity is lost and members start to drift away from their credit union as they believe that others will control it or they feel that even if they engage in it, they will not be able to influence it. Credit unions seem to have fallen in this trap, treating their members as exogenous and hence not encouraging members to engage in it, with members ceasing to be co-creators of value. This however, creates pressure on credit unions to guess what their members need as they lost their contact with them something that causes them to become even more distant as they find other service providers that better meet their needs; hence removing credit unions from their value-creation constellations. Credit unions must re-establish members as co-creators of value and this can only be achieved by identifying and using all possible ways to increase members' engagement in it by, e.g., designing products and service targeting the youth and by building on the once popular primary and high school co-operative savings plan.

Moreover with regards to *FP7: "The enterprise cannot deliver value, but only offer value propositions, i.e. the firm can offer its applied resources and collaboratively (interactively) creates value following acceptance, but cannot create/deliver value alone" (*Vargo, 2009). This means that credit unions cannot create value on their own, but instead, value is created by its members when they accept the credit union's propositions and use them to satisfy their needs. To this extend it is vital that credit unions re-establish their focus on membership as though this interaction, credit unions will learn about their members' needs and ways to meet them, making attractive propositions that members use in their value creation exercises. This way, credit unions re-enter the value-creation constellations of their members and the latter render the credit unions' service of value. Overall, membership is the only judge of credit unions' value propositions. As long as, and to the extent that members incorporate the credit union's propositions in their value-creation activities, credit unions are of value to members. To increase their value, credit unions must provide tailor-made service that is member-centered. Again, this means that credit unions must re-establish membership as their core objective and through this to re-establish regular contact with it, learning how to best structure its service propositions so that members value them and hence, use them in their value-creation activities. This is the only way credit unions can become of value to their members.

Moving to *FP8: "A service-centered view is inherently customer- oriented and relational, i.e. service is customer-determined and co-created; thus, it is inherently customer-oriented and relational" (*Vargo, 2009). This strengthens even more the need for credit unions to refocus on their members' needs and to re-establish them as co-creators of value. What can be done by credit unions, in this case, is to re-establish contact with members on a regular basis, engage in them and re-establish them as co-creators of value. Ways to achieve this include the use of local branches as hubs for re-activating local members, local staff engaging with local members and making insightful suggestions for the solution of local problems. Additionally, credit unions could establish blogs or dedicated pages in the social media (e.g., facebook and twitter) in order to activate members, as well as find out and then resolve or at least act upon members' requests/comments. Moreover, local management should encourage formal or informal discussions with members, e.g., employing an open-door policy, giving fast solutions on the local basis. Additionally, top management could distribute questionnaires to employees and members enquiring about best ways to re-establish contact with membership, and based on the results to carry out focus groups with members in order to identify the best suggestions to be implemented. Re-establishment of contact with members will create opportunities for the attraction of non-members as well, so that the membership base is strengthened.

With regards to *FP9: "All economic and social actors are resource integrators, i.e. implies that the context of value creation is networks of networks (resource-integrators)" (*Vargo, 2009). Members have needs that must be met, so they are constantly on the lookout to identify the best service provider in their existing constellation/network or otherwise they will use their family, friends, colleagues, co-workers and even the vast amounts of readily accessible information on the internet to identify potential new service providers whose value propositions may appeal more to members. This creates both a thread and an opportunity for credit unions as dissatisfied members will remove their credit union from their constellation of service providers whereas, satisfied members will take on more and more credit unions' value propositions, referring credit unions to other service integrators. On the other hand, credit unions know that, if their service propositions are tailor-made to their members' needs, members will continue or return to their credit union, re-establishing it in their value-creation constellations. Based on this, credit unions have a clear-cut mandate: employ all possible ways in order to make their value propositions attractive to existing and potential members and then communicate these propositions to members.

Finally, in examination of FP10, it can be said that: *"Value is always unique and phenomenological, i.e. value is idiosyncratic, experiential, contextual, and meaning-laden determined by the beneficiary"* (Vargo, 2009). This means that to re-establish rapport with their members credit unions must encourage them to evaluate their value propositions or to take part in forums, events especially organised for this purpose, where members are encouraged to interact with the credit union in order to create memorable experiences. These could include credit unions, employing the best students for a period of time, during school breaks, thus rewarding the youngsters and, at the same time, the latter could provide input in designing and promoting products. Additionally, by combining FP10 with the 7th Co-operative principle, "Concern for the community" credit unions could try to keep branches in remote areas open, even if this will be for a few days, around the end and start of each month. What is more, credit unions could have their local staff get involved in the community happenings and day-to-day life. This will increase the sense of belonging and the sense of trust and at the same time increase the number of instances where members can interact with their credit union and can use its value-propositions in their value-creation activities. Moreover, credit unions could organise open days or fairs during which existing members and employees could present the philosophy, the differentiating factor and the principles and values, explaining them and relating them to their day-to-day work. In this way, existing members will associate with credit unions and will create memorable experiences that will lead to a positive attitude towards credit unions' offerings; eventually members will start using these value propositions and will re-establish credit unions in their value-creation constellations. Finally, by creating memorable experiences to potential members and youngsters, credit unions could educate the next generations about the merits of co-operation and get potential members/customers engaged far before they become members.

Further to the analysis above, it should be noted that one should be aware of the limitations of S-D Logic, e.g., having a definition of services that is too broad to be implemented in operations (O'Shaughnessy and O'Shaughnessy, 2009) and whose present status is too general (Theoharakis and Sajtos, 2007). Finally, today only a minority of organisations practice S-D Logic and not all of the S-D Logic components have been tested simultaneously by an empirical study (Winklhofer, Palmer and Brodie, 2007).

7.5 Contribution

As discussed in Section 3.5, the present study aims to add to the existing volume of knowledge and to inform practitioners and supervisory bodies with regards to the practical adherence of credit unions to their founding principles. This was made possible through the collection of data from employees and members of credit unions as well as statistics from the ex-supervisory body (CSSDA) in answering the following two research questions (Section 5.10):

1. **What are the perceptions regarding the practical application of the co-operative principles?**

2. **What are the perceptions regarding the active democratic participation of members?**

7.5.1 Contribution to academic knowledge

The findings of the present study could contribute to academic knowledge in relation to co-operatives and co-operative governance. As it seems that the strongest element of the governance structure of co-operatives is the involvement of members in its control and its management, the results of the present study add to previous academic findings, i.e. that the governance structure of credit unions is not as effective as proclaimed. This is because it is not the majority of members that are in close contact with their credit union (Spear, 2004b; Bakaikoa, Errasti and Begiristain, 2004; Chaves, Soler and Sajardo, 2008; Nilsson, Kihlen and Norell, 2009). A number of possible reasons were given for the lack of members' involvement, including feelings of inability to achieve anything, even if they get involved, dissatisfaction with credit union's decisions (Wind and Rangaswamy, 2001; Bhuyan, 2007; Nilsson, Kihlen and Norell, 2009; Edwards, 2013; Hakelius and Hansson, 2016) or even free riding, (Hakelius, 1996, cited in Bhuyan, 2007; Edwards, 2013). Additionally, the larger the size of a co-operative and its membership and the higher its heterogeneity and its geographical disparity, the less active members become (Bataille-Chedotel and Huntzinger, 2004; Spear, Cornforth and Aiken, 2007; Nilsson and Svendsen, 2011). However no matter the reason behind this lack of member involvement, the reality is that members are distant and this lack of participation renders the governance structure of co-operatives vulnerable. This is because co-operative governance assumes that members are active, thus, creating the need for changes or even for the shift to a different governance model (Section 2.2.2) that does not require such an active membership. The weakened governance may allow a small group of members ("elite") to take control or to allow management to behave in non-appropriate ways (e.g., misappropriating assets, or using resources for reasons other than increasing the wealth of members) (Itkonen, 1996; Papageorgiou, 2004; Spear, 2004a; 2004b; FSA, 2007). Based on the findings of the present study, which builds on existing literature, it might be argued that lack of member participation could lead to changes in the existing governance structure or even to a different governance model. Alternatively, academics could consider and suggest new ways in encouraging members to engage with their credit union and hence, strengthen co-operative governance. These changes may include non-members experts and/or professionals to be allowed as a minority on the Board of Directors, hence enhancing control over management. Additionally, remote voting, use of live streaming technologies, blogs, chat rooms etc. could replace traditional barriers for member engagement allowing access to even more people.

Apart from the lack of member engagement discussed above, co-operative governance could also be undermined by the "temporal" demutualization of credit unions, as was the case in Cyprus, where, the state became 99% shareholder in them. By doing so, the governance structure was overturned, eliminating any member-based controls and restricting controls to those imposed by the governmental officials that were commissioned for this purpose. Moreover, the 99% ownership by the state, may have negatively affected the governance structure, as the removal of the member based Board of Directors to state appointed ones, may have increased the asymmetry of information, favouring members that place their personal interest on top of everything else, for example, by managing to obtain loans that they cannot repay. A similar effect may have been caused by the mergers of credit unions, as the increase in the geographical area, the closure of many branches and the rotation of employees, may have increased the asymmetry of information regarding the true financial ability of members, restricting member assessment to computerised algorithms and not the face-to-face and tacit knowledge accumulated by key employees.

Based on the findings of the present study, the co-operative governance may have also been negatively affected by the change in the supervisory authority as, up to the change in supervision, the Central Bank of Cyprus, was not (heavily) involved in credit unions. Moreover, the speed with which the mergers among credit unions took place in the last few years (since March 2013) may have had its toll on co-operative governance as the remaining credit unions grew substantially, sometimes literally overnight and staff was moved or was offered a package to resign. This may have caused the "temporal" ineffectiveness of the governance structure, creating black holes in relation to procedures and risk areas. Co-operative governance could improve by credit unions taking advantage of the provisions of the 6th principle ("co-operation among co-operatives"), with more advanced ones assisting the less advanced ones by exchanging know-how, procedures and experiences.

More analytically, with regards to the 1st principle, the results of the present research support the findings of researchers (Papageorgiou, 2004; CSSDA, 2005; ICA, 2012a), with regards to the fact that credit unions are indeed open and voluntary organisations. However, at the same time, the present research indicates that this may not be the case from now on, mainly because of the 99%

ownership of the credit unions by the state. If these fears realise then, there will be problems with the democratic running of credit unions and their autonomy and independence, as the state or the potential buyer of credit unions may restrict membership, findings that are already highlighted by Novkovic (2006) and Oczkowski, Krivokapic-Skoko and Plummer (2013).

With respect to the 2nd principle, the present research's findings have concentrated on three areas. Concerning the AGMs, the results have shown that it is not the majority that participates in them, something that contradicts existing literature, (Jones, 2001; Fonteyne, 2007) but at the same time it coincides with the findings of certain academics that found evidence that it is not the majority that attends the AGMs (Spear, 2004b; Bakaikoa, Errasti and Begiristain, 2004; Chaves, Soler and Sajardo. 2008; Nilsson, Kihlen and Norell, 2009). Reasons that were mentioned include lack of encouragement to participate, free riding, lack of trust in the Board of Directors, lack of volunteerism and lack of co-operative feelings in the younger generations. The results of the present study regarding the percentage of members voting at the Board of Directors' elections indicate that only 30% to 40% actually vote, while the statistics from CSSDA indicate that the average participation in the last three elections for twelve credit unions was just 7%, five of which had a participation average lower than 3%. Additionally, members claimed that they voted only when their acquaintances asked/encouraged them to do so. With regards to the results of the present study concerning the number of candidates in comparison to the available positions, it was found that around two candidates exist for every available position (1,5 candidates based on CSSDA's statistics). Other findings include the fact that existing Board members seem to have a clear advantage over the other candidates as they have already spent time preparing for the elections and they seem to know "all the tricks of the trade". As to the possible reasons for lack of members' participation, the present study's findings support existing academic research, i.e. members feel that they are not able to influence the decisions of the credit union and that they are dissatisfied with specific decisions (Wind and Rangaswamy, 2001; Bhuyan, 2007; Nilsson, Kihlen and Norell, 2009; Edwards, 2013; Hakelius and Hansson, 2016). A second reason for members' lack of involvement is the loss of local identity, a finding that confirms those of Birchall (1997), Nilsson and Svendsen, (2011). Additional possible reasons include free riding that has also been identified by Hakelius (1996, cited in Bhuyan, 2007), Edwards (2013) and the horizon problem as identified by Borgen (2004), Osterberg and Nilsson, (2009). Other reasons for members' lack of participation identified by the present study include lack of proper communication of credit unions with their members and lack of encouragement to participate, issues that were also identified by researchers such as Hakelius (1996, cited in Bhuyan, 2007); Birchall (1997); Prahalad and Ramaswamy (2000); Payne et al. (2009); Barraud-Didier, Henninger and El Akremi (2012). Finally, a possible reason identified by both credit union members and employees is the involvement of political parties in the running of credit unions, e.g., in selecting the candidates to run for the Board of Directors' elections, which supports the findings of academics such as Korres (1999) and Stefancic (2011).

As far as the 3rd principle is concerned, the present research seems to contradict the findings of researchers (Papageorgiou, 2004; ICA, 2012a; Oczkowski, Krivokapic-Skoko and Plummer, 2013), who assume that when the need arises, members will provide financial assistance to their credit union. What the present research brings to the academic discussion is that in times of uncertainty and fear, members may not be interested in the common good but instead they may try to safeguard their personal wealth and interests (self-preservation). Additionally, members may be unwilling to support their credit union in case their control over it is uncertain or lifted.

With regards to the 4th principle, the results indicate an opposition to the current literature, (CSSDA, 2005; Novkovic, 2006; Atherton et al., 2011; ICA, 2012a; Oczkowski, Krivokapic-Skoko and Plummer, 2013) which supports that co-operatives remain independent and autonomous even from the state. What the present study adds to the academic discussion is that during good times credit unions must strengthen their capital, through reserves or issuance of shares to new members, as in times of uncertainty, potential lenders, including the state, may try to restrict the autonomy and independence of credit unions. This may be true as members in an attempt to safeguard their well-being, may be unwilling to contribute to the financial strengthening of their credit union (results on 3rd principle above). Additionally, uncertainty and the time pressure to carry out mergers may create negative connotations to members who may become suspicious of the true intentions behind these imposed mergers. In these cases, communication and transparency may reduce these negative feelings.

The results of the 5th principle indicate that in reality credit unions may not be investing as much in educating/training as inferred in the existing literature (Bickle and Wilkins, 2000; Papageorgiou, 2004, Birchall and Ketilson, 2009) which indicate that co-operatives train their Board of Directors, management, employees, present and future members and the general public about the differentiating features and the benefits of co-operatives. On the other hand, the present study's findings seem to be in line with those of researchers like Novkovic (2006) and Oczkowski, Krivokapic-Skoko and Plummer (2013). What the present research adds to the existing literature is that co-operative-related training may not be as common as expected, and this may lead to the reduction of members' participation and the loss of members' willingness to support their credit union. The results may also indicate that co-operative-related training should be a matter of organised, structured and systematic effort, especially during times of crises. This is because, credit unions and their distinctive way of operating may enable those who are unemployed to set up their own co-operative organisations and also empower those who are already running their own business to co-operate with others to enhance their bargaining power and to reduce the power of middle-men. The negative views about the future revealed in the present study, may again be the effect of lack of co-operative-related training as people cannot see any feasible alternative to the current situation, an alternative that co-operatives can provide and have provided for the last one hundred years.

With regards to the findings related to the 6th principle, these seem to be in line with the literature that supports that co-operatives co-operate amongst them (Birchall, 1997; Papageorgiou, 2004; CSSDA, 2005; Birchall and Ketilson, 2009), with the only exception being the findings of Novkovic (2006) who found evidence that the co-operation among co-operatives was only superficial. Additionally, it has been found that members consider their personal interest as a priority higher than the common good. This is because the results of the present study showed that members did not agree with the imposed merger mainly because they would lose their influence on management and they would not be in charge during the merger process, i.e. looking after their personal interests. These results may be further strengthened by the responses from the personal interviews with employees of credit unions who considered that the mergers would enhance the financial viability of their credit unions and would increase their professionalization. This indicates that the situation prior to the mergers may not have been ideal and that members may not have taken the best decisions for their credit union.

Finally, with regards to the 7th principle, the results indicate that credit unions take care of their surrounding communities, something that is in line with what Novkovic (2006) and Oczkowski, Krivokapic-Skoko and Plummer (2013) say. What is new based on the current study is that, in adverse times, credit unions may restrict or stop any amounts directed to the wider community because of lack of resources and/or imposed restrictions on the amount to be paid for this purpose. Interviewees argued that even under these conditions, credit unions can assist their surrounding communities by offering financial services in remote areas even for a few days per month, by organising fund raising activities and by offering social work. What is also new is that, when asked about the criteria to decide on which branches to close down, employees mainly considered the financial indicators, whilst members gave priority to the social ones. This difference in opinions may be due to the uncertainty and fear that employees felt regarding the future continuation of their employment and the viability of the credit unions as their employers.

Overall, the findings of the present study are aligned with those of previous research, indicating that credit unions do not follow their founding principles. Additionally, they support previous research in that it is the minority of members that participate in controlling their credit union. In particular, it is highlighted that credit unions must recognise the current situation and start looking for solutions (Kelly, 2014) and that the adherence to co-operative principles is closely related to members' involvement with their credit unions and as a result to the effectiveness of their governance structure. Hence, credit unions may need to take a step back, return to basics and re-establish members' well-being as their top priority. One hundred years of strengthening the social fabric have rendered credit unions as very important, not in the sense of "too big to fail", but rather as necessary for the individual member and society as a whole (Spear, 2000; Julia-Igual and Melia, 2006; Jones, 2012).

To the author's best knowledge, the present study is the first to collect data on co-operative principles almost immediately (6 months for personal interviews – September 2013- and 12 months for focus groups –March 2014-) after a major crisis. In this case, the co-operative principles were examined after the international financial crisis of 2008 and the local financial crisis of March 2013. It was expected that in times of crises, the co-operative principles will be under scrutiny and pressure but the findings of the present study highlight that in times of crisis, the co-operative principles are put aside, and they do not represent a priority for credit unions or even for members. This situation seems to be a logical result of the prior to the crisis situation, where credit unions were not practicing all of their principles. For example, prior to the crisis, credit unions seemed to follow the 1st principle (voluntary and open membership), the 3rd principle "member economic participation", the 4th principle "autonomy and independence", 6th principle "co-operation among co-operatives" and the 7th "concern for the community" whereas, they neglected the 2nd and 5th principles, "democratic member control" and "education, training and information", respectively.

7.5.2 Contribution to Practice and Policy

In addition to the contribution to academic knowledge, the results of the present study could also be used by practitioners in Cyprus, (e.g., the Pancyprian Co-operative Federation Ltd, the Co-operative Central Bank Ltd), the practitioners in the UK (e.g., through the Association of British Credit Unions Ltd http://www.abcul.org/home) and in Europe (e.g., through the European

Association of Co-operative Banks (http://www.eacb.coop/en/eacb.html). Additionally, the findings could assist in shaping future co-operative-related training courses, for example, by the Co-operative College in the UK (http://www.co-op.ac.uk/). The results of the present study could also provide information for the current situation and hence become the starting point for any future change in the legislation or the guidance/rules of the supervisory body (the Central Bank of Cyprus). Finally, the results could be of interest for the supervisory authority of non-financial co-operatives (CSSDA), as the adherence to the founding principles could represent an issue that also applies to non-financial co-operatives.

Moreover, the results could be disseminated to the Cypriot co-operative parties above through a written summary in Greek, sent to their offices in the form of a report, followed by a presentation, allowing the opportunity for a round table discussion. For example, as CSSDA is an autonomous department of the Cypriot government, it could use the findings in order to make changes to the current co-operative law, in relation to the involvement of political parties, the compulsory increase of capital reserves and the offering of mandatory co-operative-related training to employees and management. For the Association of British Credit Unions, the Co-operative College and the European Association of Co-operative Banks, it may be more appropriate to inform them about the results through a formal letter giving them the opportunity for a skype presentation or even for a face-to-face meeting.

In general, the most crucial result that has been found is the importance of the co-operative-related training of the Board of Directors, management, employees, existing and potential members, the governmental officials and the general public, which should be closely taken into consideration. This is because without training people forget, the distinctive features of credit unions and act as if they are just part of any for-profit-business. As discussed in Section 6.2.7, 6.5.5, the lack of co-operative-related training allows management to depart from the primary objective which is to increase the wealth of members. This creates and feeds free riding and apathy on the part of members, causing the reduction of the level of co-operative governance and allows even more space for management to pursue objectives other than the one they should. Additionally, lack of training to existing members could restrict the volume of business they could do with their credit union, giving rise to problems such as "horizon problem". At the same time potential members are not made aware of the benefits of credit unions, hence depriving co-operatives from new and especially younger members, an issue that can eventually lead to fears about the long-term survival of credit unions. In addition to this, the lack of co-operative related training may have an impact on the future of credit unions, especially with respect to decisions taken related to credit unions' autonomy and independence (as already happened with the decision for a loan of €1,5billion in exchange for 99% of ownership in credit unions). It is author's opinion that if the governmental officials were aware of the co-operative principles and the distinctive features of credit unions, a different solution could have been found that would not have restricted the autonomy and the independence of credit unions.

A second important finding for practitioners and supervisory bodies is the low participation of members of credit unions in AGMs, standing for election and in the elections for the Board of Directors (Sections 6.2.4, 6.4, 6.5.2). The low participation of members could inevitably lead to further weakening of co-operative governance allowing further opportunities to management to pursue objectives other than to increase the well-being of members. The present study has identified that the loss of credit unions' autonomy and independence leads to further decrease of members' participation as they feel that no matter whether they participate or not, they cannot influence decision making. In addition, the low member participation seems to go hand in hand with the findings regarding the seemingly inappropriate ways that credit unions communicate with their members (letter/leaflets/announcements) and the negative feelings of members about the way they get invited in AGMs (Section 6.5.2, 6.5.5). This finding is also related to the lack of co-operative-related training and hence, practitioners and supervisory bodies should identify a number of alternative ways so as to increase the engagement of members, perhaps, through emails, blogs, twitter, chat rooms, etc.

Moreover, it was suggested that time should be devoted for casual/social meetings of members with the management and the employees of the credit union, for example, over a cup of coffee or during an open day. However, it could be the case that despite its genuine effort, the Board of Directors may only achieve a limited increase in members' involvement. As seen in Section 7.3.4, this could be because of the changes in the contemporary society and the dominance of more self-centred and passive citizens.

What is more, it has been highlighted that credit unions should gradually and persistently increase their capitalization. As was shown during the financial crisis of 2008 and as of March 2013 (in the case of Cyprus) credit unions must build up reserves during "good" times in order to be on the safe side when the "not so good" times arrive, something which is in line with the "Spanish Dynamic Provisioning Scheme" (Brunnermeier et al., 2009; Saurina, 2009). As, the existing literature has shown that credit unions are both slow and inexperienced in raising external finance (Section 4.4.3) and the present study has shown that during turbulent times, members are not willing to contribute to the financial strengthening of their credit unions (Sections 6.2.5 and 6.5.3) due to self-preservation efforts, it is suggested that credit unions should gradually build up the necessary reserves through increase of their yearly surplus (income minus expenses).

Furthermore, practitioners and supervisory bodies could be informed by the finding that the credit union employees felt that the professionalism and organisational structure of their credit union needed to be enhanced, expressing their opinion that this could be achieved through mergers (Section 6.2.8). The interviewed credit union employees believed so even though the mergers could cause the creation of surplus personnel and possibly the dismissal of some of them and possibly their own lay off.

Another finding that could assist practitioners and supervisory bodies is that political parties seem to be involved, at least, in the selection of candidates to stand for the Board of Directors' elections. As seen in Section 6.2.4 and 6.5.2, the political parties agreed between them the candidates. This however is worsened by the fact that after the announcement of these candidates, nobody else dared to stand as an independent candidate as they feared of being humiliated, if they did not get elected (Section 6.2.4). What is more the focus groups participants highlighted the fact that when the political parties were involved in the elections for the Board of Directors, the number of people casting their votes was much higher than normally and that the political parties were even involved in the hiring of new employees (Section 6.5.4). These findings are in agreement with those of the Central Bank of Cyprus (Section 4.2), indicating the possible magnitude of the problem. Thus, supervisory bodies and policy makers should take action in order to reduce/eliminate the involvement of political parties in credit unions, facilitating their democratic running and their autonomy and independence. Apart from the direct positive effects, these actions may also assist in the increase of members' involvement with their credit union.

What could also potentially inform practitioners and possibly supervisory bodies is that credit unions should provide for the surrounding communities, not only by continuing to do what they did so far (Section 7.2.6), e.g., offering scholarships, making donations, providing athletics, theatre plays and dancing class, but also by organising fund raising events and by offering social work. Additionally, credit unions could continue providing services to remote areas by, for example, opening branches even for a few days around the end and beginning of each month and/or using branches on wheels (Section 6.2.9).

Finally, the present study contributes to practice and to the existing literature in an attempt not only to show the commonalities of co-operatives and Service-Dominant Logic (S-D Logic) (see Section 2.4) but also to suggest ways that credit unions can benefit from the implementation of S-D Logic in their daily activities (see Section 7.4 above).

Overall, the results of the present study could also be used by practitioners, supervisory bodies and policy makers as a warning bell about the future of the co-operative movement. If no action is taken, then credit unions will either lose their membership or will be transformed into investor-owned banks following their demutualization (as happened in the UK following the Building Societies Act of 1986 and, in Sweden, in 1990) or will be sold to an investor-owned bank that will amalgamate the credit unions' operations with its own. However, if their vision is to continue to use credit unions as a way to increase social cohesion, as a safety net and as an effective way to promote financial inclusion, then changes must take place. These changes should ensure member democratic control, close supervision of management and an effective governance structure. Using credit unions to increase social cohesion is far more complicated and time-consuming than permitting the transformation of credit unions into investor-owned banks, but the former will ensure the long-term prosperity of members and the society. The option to be selected is a matter of strategic choice and vision.

7.6 Limitations and further research

Although close examination of various methodological issues have been considered, the present research has some limitations which could affect its findings. Firstly, it should be noted that the present study took place on the island of Cyprus, which has both similarities and differences with other countries. Therefore, the extent to which the findings are applicable in other settings is unclear. To this effect, it would be interesting if similar research was undertaken in other geographical areas to assess the extent to which the results are similar in these areas as well.

A further limitation is that the employees that took part in the interviews belonged to a small number of credit unions, whereas, the results of the focus groups were based on members from a specific credit union, rendering the results incapable of being generalizable. As any other qualitative research, the intent was to understand the perceptions of employees and members regarding these credit unions, in more detail, rather than have results that are generalizable to other credit unions. However, by studying the results of the current research, an informed user could make “logical generalizations” and compare with comparable credit unions (Popay, Rogers and Williams, 1998, p.348).

Another limitation is the fact that both the individual interviews (carried out in September 2013) and the focus groups interviews (carried out in March 2014) took place six months and one year, respectively, after the financial crisis in Cyprus (March 2013) and hence the results may have been influenced by the uncertainty, the lack of trust and frustration expressed by the participants of this study. Additionally, the results could have been affected by the fact that the Cypriot state obtained a 99% ownership in credit unions, something that may have caused additional pessimism among the members and employees that participated in the present research. The results could have been different if the research was undertaken prior to these two events or a few years afterwards. Therefore, it would be interesting if, in the future, a new research is carried out to assess whether employees’ and members’ perceptions change with regards to these two issues.

A fourth limitation was the fact that the researcher of the present study used to be an “insider” and hence his experiences and knowledge of the reality regarding the above two research questions may have acted as “selective” perception. To mitigate this risk the results of each of the three methods were kept separately and the comments of the researcher were clearly stated as such. Also, the collection of data through three different methods with findings that support each-others’ may ease these fears. Finally, it should be noted that the affiliation of the researcher with the employees and members interviewed is not any different from any other qualitative research that uses a convenience sample (Burgess, 1984; Bryman, 2001).

In an attempt to identify the areas where credit unions could potentially improve, and strengthen their member based objectives, the present study has briefly touched on the ideas of Service-Dominant Logic (S-D Logic). It is the opinion of the present study’s author that credit unions could benefit from the ideas of S-D Logic (e.g., member/customer focused operations, importance of training, importance of co-operation among credit unions) and hence it is suggested that future research concentrates more carefully on the similarities of the ideas behind credit unions and S-D Logic, possibly leading to the identification of ways the latter could assist credit unions remain focused on their members and on the increase of their well-being. In line with this, and building on recent conference papers, i.e. ICA conferences in Nicosia, Cyprus, in 2013 and, in Pula, Croatia, in 2014 and; EURICSE conference in Trento, Italy, in 2014, and the two publications to date (Review of International Co-operation, edited by Sonja Novkovic, International Co-operative Alliance, published in 2013, and a book chapter in "Credit Cooperative Institutions in European Countries", edited by Simeon Karafolas, Springer, published in 2016), the author of the present study plans (apart from the results of the present study) to publish also a paper on the similarities of credit unions and S-D Logic.

In conclusion, the results of the present study concur with the findings of those researchers who support that the governance structure is not as effective as predicted by the literature. The suggestion thus, is for further research to be carried out, and perhaps to a greater extent (in terms of time and geographical location), in order to allow comparability of results and in an attempt to inform regulators, supervisory bodies, policy makers and practitioners, who could use these to formulate regulations and policies for the best operation of credit unions.

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Appendices

Appendix 1: Interview questions:

1st research question: "What are the perceptions regarding the practical application of the co-operative principles?"

Question 1 from 36:
Can you recall some of the seven co-operative principles? If you do not remember then you can choose one from the co-operative Principles that are presented on this card.

Question 2 from 36:
Which co-operative principles presented on this card do you believe are the most important ones and why?

Question 3 from 36:
How do the products/services (e.g., current accounts, credit cards, letters of guarantee, etc.) that co-operatives offer assist the co-op members to improve their financial position?

Question 4 from 36:
How have products and services changed or could change to assist co-operative members to accommodate the new reality that the crisis has enforced?

Question 5 from 36:
Do you consider that the behaviour of the co-operators have changed as a result of the financial crisis? If there was a change is it for the better?

Question 6 from 36:
How can the compliance of credit unions to the co-op Principles be evidenced in practice, e.g., by reference to internal/external documents?

Question 7 from 36:
Are you aware of any incident where someone was forced to become a member of a co-operative?

Question 8 from 36:
Are you aware of any incident where someone was forced to leave his credit union? How is this decision justified?

Question 9 from 36:
If the need arises the co-operatives can ask their members to provide additional capital. How do you think that your members will react to the call to buy shares class B' (new legislation 17 May 2013 as per Troika's instructions)?

Question 10 from 36:
Why do you think that your members will react in this way to the call to buy shares class B'?

Question 11 from 36:
On 17 May 2013 the Cyprus Parliament voted the amendment to the law governing co-operatives enabling co-ops to issue shares class B' to strengthen their financial position. How would you react if you found out that the shares class B' would be offered also to non-members/investors?

Question 12 from 36:
How would you react if you found out that: (i) "Offering shares class B' to non-members may create pressure from non-members on co-ops to become more like banks i.e. to pursue profits and neglect the social aspect of co-operatives?

Question 13 from 36:
How would you react to the following phrase: "Offering shares class B' to non-members may even lead to the demutualization of credit unions as happened in UK (the U.K.'s Building Societies Act of 1986 prompted the largest demutualization process in Europe)?

Question 14 from 36:
According to the decision, the credit unions will be capitalized by an injection of €1.5 billion from the Cyprus government in exchange for a 99% shareholding in co-operatives. Do you believe that the transfer of the 99% of co-op's shares to the government with a 10% return per year is a better solution than the government granting a loan to co-ops with 10% interest rate?

Question 15 from 36:
What do you believe will be the future of the co-operative movement in Cyprus?

Question 16 from 36:
In your opinion, what are the reasons for the high percentage of non-performing loans (with an average of 43%)?

Question 17 from 36:
In what ways do you think that the credit unions could gain, to an even greater extend, the peoples' trust having in mind the deposits' "haircut" and the improper governance of investor-owned banks?

Question 18 from 36:
From the perspective of an employee of a credit union, in what ways do you think that the co-operative principles shape your working relationships and/or the way you perform your duties (e.g., in relation to how you deal with your clients'/members' needs/demands, humanistic Vs. commercial attitude, speed of service, effort to meet clients'/members' needs etc.)?

Question 19 from 36:
What do credit unions offer to their clients that investor-owned banks do not do?

Question 20 from 36:
How often do you, as an employee of a co-operative, have, any kind of, training about the co-operative principles or co-operatives in general?

Question 21 from 36:
Do you think that such training (about the co-operative principles or co-operatives in general) was/would be useful?

Question 22 from 36:
How often does your credit union organize training programmes/seminars in relation to the co-operatives for its members or potential members?

2nd research question: "What are the perceptions regarding the active democratic participation of members?"

Question 23 from 36:
What measures has your credit union taken in order to inform and/or attract the younger generations to become its members?

Question 24 from 36:
During the negotiations with Troika, so far, which co-op bodies (e.g., co-op Central Bank or co-op Confederation) are responsible to inform and guide the Cyprus government regarding co-operatives?

Question 25 from 36:
What is your opinion regarding the proposed mergers demanded by Troika possibly reducing the number of credit unions from 100 to 18?

Question 26 from 36:
Given the present financial crisis and on the basis of the co-operative principles, in what practical ways could the co-operatives support their members (on top of the products/services that co-operatives offer already or could offer- question 3 from 36 above)?

Question 27 from 36:
As a result of the mergers, it is estimated that the credit unions' branches will be reduced from 410 to 250. In your opinion, what should be the criteria (economic and social) on which the decision for the closure of branches should be taken?

Question 28 from 36:
What could be the conditions/reasons under which a member could not engage with his co-operative, i.e. to lose his interest in his co-operative?

Question 29 from 36:
What forms of communication does your credit union use to reach its members, in order to increase transparency and the dialogue with them?

Question 30 from 36:
If you could change the existing communication methods that your co-operative uses which ones would you add/concentrate on so that your co-operative engages in active communication with its members?

Question 31 from 36:
What measures (e.g., monetary and non-monetary incentives) could a credit union take in order to encourage its members to engage even more with their credit union?

Question 32 from 36:
What was the percentage of members voting at the previous three Board of Directors' elections (i.e. for each of the previous three elections: number of members voting divided by total number of members)?

Question 33 from 36:
What was the proportion of the number of candidates to the number of available positions on the Board of Directors (e.g., 3 candidates for each position) for each of the last three elections?

Question 34 from 36:
What percentage of members attended each of the last three Annual General Meetings (i.e. members attending the AGM divided by total number of members)?

Question 35 from 36:
What kind of decisions are taken at the AGM as opposed to those taken by management?

Question 36 from 36:
What are the criteria for assessing which decisions will be discussed and taken at AGM?

Appendix 2: Summary of the initial findings for interviewees' validation2:

Following the financial break down of Cyprus, in March 2013, research was undertaken in September of the same year through structured individual interviews with thirty credit union employees as to their perceptions regarding the practical application of the co-operative principles by credit unions in Cyprus and regarding the active participation of members in their credit unions.

Based on the preliminary results of the research regarding the employees' perceptions of the practical application of the co-operative principles by credit unions in Cyprus and bearing in mind that the interviews took place in September 2013, i.e. just five months after the deposit haircut, the restrictions on cash withdrawals and the high insecurity that people felt, we can say that:

- 1st co-operative principle "Voluntary and open membership": credit unions follow the principle as none of the respondents claimed that someone was forced to become member or to lose his membership (apart from very rare cases where a court convicts a member).

- 2nd co-operative principle "Democratic member control": the data has shown that this co-operative principle is not followed in practice by credit unions in Cyprus since: (a) the majority of members do not participate in the elections for the Board of Directors; (b) there is not a lot of interest in being elected in the Board of Directors as the vast majority of respondents claimed that there were two or fewer candidates for each available position and; (c) almost all respondents considered that the percentage of members attending the General Meetings was between zero and less than 25%. As to the type of decisions taken during the Annual General Meetings (AGM), the most popular decisions related to the approval of financial statements, the approval of mergers and the changes in the Articles. Finally, when asked about the criteria for assessing which decisions will be discussed and taken at AGM, the respondents referred to the law/the Articles of Incorporation/the decisions taken by the Commissioner of CSSDA, to members' suggestions (two of which doubted that members put any suggestions forward) and to the Board of Directors and the management.

- 3rd co-operative principle "Member economic participation": credit unions seem to have followed this principle, but now due to the financial crisis it is uncertain whether they will continue to follow it as members are not seen as willing to contribute to the financial strengthening of their co-ops.

- 4th co-operative principle "Autonomy and independence": credit unions seem to have followed this principle but again it is uncertain whether they will continue to follow it as respondents raised concerns regarding (a) the independence of credit unions following the transfer of 99% of their shares to the Cyprus state for €1,5 billion, for five years; (b) the possible loss of credit unions' independence in case they issue and sell class B' shares (which will not carry voting rights) to non-members enabling members to pressure credit unions to pursue profits and even to demutualize; (c) most respondents were not optimistic about the future of credit unions fearing their shrinkage and their transformation into investor-owned banks or even their merging into a single credit union/co-op bank (with some respondents considering that what is happening today constitutes a fresh start for credit unions in Cyprus); (d) the possible loss of credit unions' independence was raised. Members do not seem to submit their personal short-term benefits for the long-term benefit of all the members as it seems that they have obtained loans which they cannot repay. On the other hand, the vast majority of respondents considered that the co-operative principles do shape the employees' way of operating, but some respondents considered that there are exceptions. When asked about ways the credit union can regain people's trust, the most popular answer was to build on the humanistic character of credit unions.

- 5th co-operative principle "Education, training and information": according to the data, it seems that credit unions do not follow this principle. Respondents claimed that their credit union does not take any measures to attract younger generations and they doubted that the Cyprus government listened to what the co-operative bodies were trying to say. In addition, credit unions do not conform to this principle as they do not organize training/seminars for their employees or for their existing and potential members (on co-operative principles and other co-operative-related areas). Despite that respondents argued that their credit unions inform and attract new generations and that the co-operative bodies guided the Cyprus government on co-operative-related issues, the old age of most of members, the situation during the financial crisis of March 2013 and the results, i.e. the transfer of the ownership in credit unions to the state, indicate that these are not effective.

- 6th co-operative principle "co-operation among co-ops": it seems that credit unions follow this principle as the vast majority of the respondents considered that the mergers (reducing the number of credit unions from 100 to 18) will be for the best and only the minority considered that it will be for the worse.

- 7th co-operative principle "Concern for the community": the data indicates that credit unions used to follow this principle, but due to the financial crisis it is uncertain whether they will continue to follow it as respondents considered that the financial criteria are more important than the social criteria, in deciding which branches to close. This may indicate the willingness of credit union employees to assist their members, but, at the same time, realize that, due to the financial crisis and Troika, things will need to change. This is the case, even though credit unions are willing to adjust their demands to the financial abilities of their members.

According to the preliminary findings, the most popular reasons that could cause the lack of participation of a member in his/her credit union are: lack of interest and personal benefit of members, members' dissatisfaction with the decisions taken by a credit union, fear that members cannot influence a credit union's decisions, the loss of local identity of credit unions (mainly because of the mergers) and the free riding of members.

With regards to the communication methods that credit unions currently use, the most popular methods were: letters/advertisements/announcements, personal contact, suggestion boxes and web sites, telephone calls, sms and General Meetings. However, five respondents argued that their credit unions do not communicate with their members. As to the better communication methods that credit unions should concentrate on the most popular methods were: personal contact and dialogue, further use of telephones and sms, social events, information events, enhancement of the web site and internet banking, advertisements, letters and Mass Media.

Concerning the question of offering financial or non-financial incentives to activate members, sixteen members suggested financial incentives, while fourteen participants suggested non-financial incentives.”

Appendix 3: Focus Group questions:

Question 1 from 24:
In what way (if any) credit union employees perform their duties differently from the investor-owned banks' employees? Are credit union employees any different from investor-owned banks' employees?

Question 2 from 24:
What are the similarities and differences between credit unions and investor-owned banks?

Question 3 from 24:
Do you believe that the social character of the credit unions has changed? If yes, in what ways and why?

Question 4 from 24:
What are the reasons for the changes that credit unions are going through today? (NOTE to researcher: what is described by the interview results is due to the culture that was created during all these years but now this culture is shaking the foundations of the co-operative movement.)

Question 5 from 24:
Has the economic crisis affected the behaviour of members and/or the credit unions? If yes, in what ways and why?
(NOTE to researcher: The fear and the uncertainty that is evident in the interview results is due to the economic climate and the financial crisis of the last year. Also, the results indicate that most participants were not optimistic about the future of co-operatives in Cyprus is not in line with the finding that the majority of participants were in favour of the mergers between the credit unions. The researcher explained it as a sigh of employees' uncertainty, hoping that the mergers will strengthen their credit unions and thus secure their jobs.)

Question 6 from 24:
Do you trust your credit union and how this has changed as a result of the financial crisis?
(NOTE to researcher what can be done in order to regain the trust of their members?)

Question 7 from 24:
The government will give €1,5 billion to co-ops in exchange for 99% of their shares for five years.
(a) In what way (if any) this has impacted on the ability of members to decide for and control their co-op?

Question 8 from 24:
(b) In what way (if any) this has influenced the application of the co-operative Principles?

Question 9 from 24:
(c) Do you believe that this had any impact on the way credit union employees perform their duties? (NOTE to researcher the results of the interviews highlight the employees' fear that the selling of co-op shares to the state is restricting their independence.

Question 10 from 24:
Do you believe that your credit union should/should not take measures to inform and/or attract the younger generations to become its members and why?

Question 11 from 24:
How often does your credit union organize training/seminars on co-op related issues for its members? In what way (if any) members can benefit from such seminars?

Question 12 from 24:
What is your opinion regarding the mergers that are being carried out since the last year?

Question 13 from 24:
Given the present financial crisis and on the basis of the co-operative principles, in what practical ways could the credit unions support their members?

Question 14 from 24:
What should be the criteria for deciding which branches should be closed? (NOTE to researcher: economic and social)

Question 15 from 24:
Do members attend the General Meetings? What are the reasons for this?

Question 16 from 24:
Kirton and Healy (2013) argue that Gordon et al.'s (1980) definition of union commitment: a willingness to continue being a member of the union, a willingness to participate in the union and a confidence in and acceptance of the union's goals. Are members active with regards to their credit union? What are the reasons for this?

Question 17 from 24:
What kind of incentives credit unions should use in order to activate their members? What are the reasons for this? (NOTE to researcher: financial Vs. non-financial)

Question 18 from 24:
What are the methods, credit unions currently use in order to communicate with their members? Are they effective and why/why not?

Question 19 from 24:
What communication methods should the credit unions employ in order to communicate effectively with their members and why?

Question 20 from 24:
What percentage of members participates in Board of Directors' elections? What are the reasons for this?

Question 21 from 24:
What is the number of candidates in relation to the available positions for the Board of Directors; elections (e.g., two candidates for each position)? What are the reasons for this?

Question 22 from 24:
What could be the reasons for the high percentages of non-performing loans?

Question 23 from 24:
What could the members do in order to ensure that credit unions remain focused in meeting the demands of their members?
(NOTE to researcher: it appears that there are factors that they see within their control, and out with their control. May be this could be put into a question too?)

Question 24 from 24:
What do you believe will be the future of the co-operative movement in Cyprus?

Appendix 4: Summary of structured interviews and focus groups' results:

Co-operative principle	Interviews' results	Focus Groups' results	CSSDA data
1st: "Voluntary and open membership"	**Was followed. Now uncertain if will be followed.**	**Was followed. Now uncertain if will be followed due to 99% ownership to state.**	N/A
Forced to become member.	None.	N/A	N/A
Forced to be struck off the members' registry.	None.	N/A	N/A
2nd: "Democratic member control"	**Not followed.**	**Not followed.**	**Not followed.**
Participation in the elections for the Board of Directors.	Less than 30% of members vote during elections.	30%- 40% of members vote during elections.	7% of members vote.
Members interest to be elected on the Board of Directors.	Two or less candidates for each available position.	1- 2 candidates run for each available position (political parties set the candidates with independent candidates fear humiliation.	1,5 times more candidates than available positions.
Members' attendance to the General Meetings.	Less than 25% of members with most employees claiming <1%.	Do not attend (free riding).	8% of members participate.
Kirton and Healy (2013) argue that Gordon et al.'s (1980) definition of union commitment. Are members active?		Active as clients and that they do not attend the General Meetings often.	N/A
Type of decisions taken during the Annual General Meetings as opposed to the decisions taken by management.	Approval of financial statements and mergers, changes in Articles of Incorporation, examine members' complaints, distribution of year's profits, hear members' suggestions.	N/A	N/A

Co-operative principle	Interviews' results	Focus Groups' results	CSSDA data
Criteria for assessing which decisions will be discussed and taken during the AGM.	Decisions to bring the credit union in line with the law, the Articles of Association or the instructions given by the Commissioner of CSSDA.	N/A	N/A
Members' lack of participation.	Members' lack of interest and lack of personal benefit and free riding.	N/A	N/A
Communication methods.	Letters, advertisements and announcements, personal contact with members, suggestion boxes and web sites.	Letters and circulars but ineffective. Personal contact with employees and Board of Directors.	N/A
Better communication methods.	Personal contact and dialogue and visiting the working places of members.	Personal contact and dialogue with evident effort on behalf of credit union. Also blogs, sms, emails.	N/A
Financial Vs. non-financial incentives to activate members.	Financial incentives to members (small gifts for participation, enhanced services and/or lower costs to active members, small amount of cash to members for introducing potential members, linkage of dividends to profitability).	Meeting with management "over a cup of coffee", members' voice to be heard, lower interest rates on loans. Visits in working places not preferred by members.	N/A
Co-operative principle	**Interviews' results**	**Focus Groups' results**	**CSSDA data**
3rd: "Member economic participation"	**Was followed. Now uncertain if will be followed**	**Was followed. Now uncertain if will be followed.** (Members lost their trust and are afraid due to uncertainty in financial sector).	N/A
Members will buy shares to assist in the recapitalization of their credit union.	Members will not assist.	N/A	N/A
Reasons for members not assist in recapitalization.	Loss of trust in credit unions and bad financial conditions in general.	N/A	N/A

Co-operative principle	Interviews	Focus Groups' results	CSSDA DATA
4th: "Autonomy and independence"	**Was followed. Now uncertain if will be followed due to 99% ownership to state.**	**Was followed. Now uncertain if will be followed due to 99% ownership to state.**	N/A
Credit unions selling class B' shares to non-members.	Interviewees were positive.	N/A	N/A
Way to regain peoples' trust.	Build on humanistic character of credit unions, whole system should regain people's trust and; improve way credit unions are managed.	N/A	N/A
Are credit union employees any different from investor-owned banks' employees?		Yes. Not-for-profit nature & anthropocentric character of credit unions	N/A
Difference between credit unions and banks.	Anthropocentric character of credit unions.	Credit unions are much more anthropocentric and friendly than investor-owned banks.	N/A
Do you believe that the social character of the credit unions has changed?		Changing from anthropocentric to that of investor-owned banks.	N/A
What are the reasons for the changes that credit unions are going through today?		Lack of competent supervision and/or effective preventive measures, light heartiness of granting loans.	N/A
Selling of 99% of co-ops' shares to the Cyprus government.	Loan better as loss of independence due to sale of 99% of shares is feared.	N/A	N/A
Selling of class B' shares to non-members enables pressure on credit unions to pursue profits.	Fear for loss of credit unions' independence.	N/A	N/A
Selling of class B' shares to non-members enable non-members to pressure credit unions to demutualize.	Fear for loss of credit unions' independence.	N/A	N/A

Co-operative principle	Interviews	Focus Groups' results	CSSDA DATA
Do you trust your credit union and how this has changed as a result of the financial crisis?	N/A	Members' trust fell because of its interdependence on rest of credit unions.	N/A
The government will give €1,5billion to co-ops in exchange for 99% of their shares for five years. (a) impacted on ability of members to control their co-op?	N/A	The government will be the sole owner and will take all the decisions	N/A
(b) In what way (if any) this has influenced the application of the co-operative Principles?	N/A	Invalidates 2nd, 3rd and 4th and restricts resources for 5th and 7th.	N/A
(c) Do you believe that this had any impact on the way credit union employees perform their duties?	N/A	Employees slower in their work. Something bothers them and distracts them. Due to the uncertainty re the future of credit union.	N/A
Future of credit unions.	Fear shrinkage of credit unions and/or transformation into investor-owned banks.	"Pitchy black". Be transformed into or be bought by a bank.	N/A
High value of non-performing loans.	Fear for loss of credit unions' independence due to financial assistance required.	Lack of effective supervision, interpersonal relationships easing the granting of loans and lack of adherence to the rules	N/A

Co-operative principle	Interviews	Focus Groups' results	CSSDA DATA
5th: "Education, training and information".	**Not followed.**	**Not followed.**	N/A
Informing the younger generations.	Attract the younger generations by: offering products that are suitable for their age; through advertisements and leaflets, through the younger employees and; by visiting their working place.	No effort to attract new members. Should have done so. Not possible anymore: government 99% owner, budget cuts.	N/A
Informing and guiding of Cyprus government.	Co-op bodies informed and guided the Cyprus government.	N/A	N/A
Training employees on co-op issues.	Credit unions do not or very seldom organize training/seminars for their employees.	N/A	N/A
Usefulness of employee' training on co-op issues.	Training would be useful.	N/A	N/A
Training members on co-op issues.	Credit unions do not organize training/seminars for their members.	Credit unions do not organize training/seminars for their members.	N/A
6th: "co-operation among co-ops".	**Followed.**	**Followed.**	N/A
Mergers.	Credit unions continue with the imposed plan to merge among them and mergers perceived as being for the better.	Members do not agree with the merger of their own credit union (became impersonal & lost the upper hand).	N/A

Co-operative principle	Interviews	Focus Groups' results	CSSDA DATA
7th: "Concern for the community"	**Was followed. Now uncertain if will be followed**	**Was followed. Now uncertain if will be followed as government 99% owner & budget cuts.**	N/A
Ways credit unions could assist their members weather the financial crisis.	Credit union should adjust demands to abilities of members (reduce interest rates, charges, extend repayment period, restructuring loans).	N/A	N/A
Criteria to decide which branches to close down.	32 responses re financial criteria and 20 responses re social criteria.	Social (servicing members), financial (cost) & political (strongest party in merger).	N/A
Employee awareness of co-operative Principles.	"*Concern for the community*", "*Democratic member control*" and "*Autonomy and independence*" and co-operative Value of "*Equality*".	N/A	N/A
Credit unions assist their members.	Provision of financial facilities to members' needs and lower interest rates and charges.	Writing off & restructure loans, reduce interest rates.	N/A
Credit unions could assist their members to weather the financial crisis.	Reducing the loan instalments, interest rates, charges and extending the repayment period of loans.		N/A
Behaviour of co-operators has changed as a result of the financial crisis	Yes.	Changed, due to economic climate, rendering fear and uncertainty more evident.	N/A
Credit unions comply with the co-operative Principles.	Yes.	No.	N/A
What could the members do in order to ensure that credit unions remain focused in meeting the demands of their members?		Cannot do anything to influence their credit union. Could only continue to be clients and **hope** that things will return to their prior-to-the-crisis status.	N/A