Credit unions, Co-operatives, sustainability and accountability in a time of change a case study of credit unions in Cyprus.

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Abstract

The financial crisis of 2008 resulted in calls for change. Commentators suggested that co-operatives, in particular credit unions, could provide accountability and sustainability through their open governance and mutual status. However, such suggestions assumed that co-operative principles and practice continued to underpin the efficacy of co-operative banking, and that credit unions, one of the most prevalent forms of co-operative banking, could offer a viable financial alternative. Instead, in the case of Cyprus, the financial crisis and the associated aftershocks triggered the nationalisation and demutualisation of credit unions. This prompted the researchers to question both the viability of a co-operative banking future and the extent to which co-operative principles were shaping decision making, governance, accountability and sustainability. A case study approach was adopted to explore the degree to which co-operative principles still shaped credit union thinking and stakeholder relationships. As is the case elsewhere within the co-operative movement, the findings point the fact that governance is weakened by low membership participation and that the principles are no longer universally applied. Credit unions, if not co-operative banking, may not offer the financial assurances that commentators have called for. Moreover, the guiding principles may no longer be embedded within the fabric of the movement.

Key words: Co-operatives, credit unions, co-operative principles, governance, financial crisis.

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Introduction

The 2008 financial crisis and associated aftershocks stimulated much debate regarding financial probity, accountability and governance. Commentators from a range of professional and academic backgrounds called for more transparent and responsible banking (Richter, 2009; Gibbons 2011) and a return to simpler, more humanistic, ethical and fairer financial models (Farrands, 2011; O'Brien, 2011).

Co-operative banking, a not-for-profit, mutualised financial model may represent an attractive alternative to financial services' consumers. Co-operative banks and credit unions are built upon co-operative principles, ensuring transparency, democracy and accountability; they serve the membership not a globalised corporate identity. However, to what extent are co-operatives still governed and shaped by mutually beneficial principles? Research suggests that co-operatives may no longer be the paragons of virtue they once were (Wilson and MacLean, 2012; Oczkowski, Krivokapic-Skoko and Plummer, 2013; Cabo and Rebelo, 2015).

This paper reports on a recent research project which explored the extent to which underpinning co-operative principles continued to shape the actions, accountability and governance of credit unions. It is structured as follows. Firstly, this paper aims to answer the following questions: what are the underpinning co-operative principles and do they still resonate within credit unions? Secondly, the research approach is outlined and findings noted. Finally, the paper moves on to conclusions and suggestions for future research.

Co-operatives and Principles

"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 distinctive as they are owned and controlled by the membership (Ferri, Kalmi and Kerola, 2014). They endeavour to create and maintain trusting, long lasting, relationships (Sabatini, Modena and Tortia, 2014; Ferri, Kalmi and Kerola, 2014). This double identity, ownership and membership, builds personal ties and mitigates against information asymmetry and agency problems (Ferri, 2012). Co-operatives aim to improve the general socio-economic wellbeing of the membership (Alexopoulos and Goglio, 2011); and by so doing strengthen the social fabric that binds the community together (Jones, 2012, Hossein, 2017). Members benefit not through share value but through the co-operative services they consume (Yair and Davis, 2008).

In Europe co-operative financial institutions continue to play an important role (Ferri, Kalmi and Kerola, 2014), engaging primarily in retail banking at a local or regional level (Groeneveld, 2015). At the end of 2016, there were 4,050 regional and local cooperative banks with 79 million members, employing 749,000 people, serving 210 million customers and managing banking assets of €7 trillion (EACB, 2017a). Additionally, co-operative financial institutions have significant local market share. For example, by the close of 2016, the French co-operative banks had 61.4% market share of domestic deposits and 59.2% of loans, whereas, in Finland they had 38.8% of domestic deposits and 35.4% of loans; in Netherlands they had 34% of domestic deposits and in Cyprus the Co-operative Central Bank enjoyed a market share of 26% of domestic deposits and 22% of loans (EACB, 2017b).

Co-operatives have traditionally been formed to respond to the needs of the members (Fonteyne and Hardy, 2011). They offer members greater collective negotiating power and guard against opportunism and exploitation (Cook, 1995). Co-operatives have flourished due to the shared principles that safeguard member interests and differentiate them from investor-owned companies (Fajardo Garcia, 2012).

The seven co-operative principles, as provided by ICA (2012), ensure their values of self-help, self-responsibility, democracy, equity and solidarity are put into practice:

1st: Voluntary and Open Membership. Co-operative membership is "voluntary" at the point of joining and exiting, and "open" to all who qualify (Papageorgiou, 2004). Membership needs to remain attractive, encouraging sustainable benefits (Fulton and Giannakas, 2012).

2nd: Democratic Member Control. "Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions", with each member having a vote. This stems the anthropocentric and socioeconomic nature of co-operatives (Papageorgiou, 2004).

3rd: Member Economic Participation. "Members contribute equitably to, and democratically control, the capital of their co-operative". Members are compensated based on the value of their co-operative transactions (Cuevas and Fischer, 2006). Furthermore, the accumulated undistributed reserves (or intergenerational endowment) can be perceived as social capital, a legacy from the existing membership to future generations (McKillop and Wilson, 2011).

4th: Autonomy and Independence. "Co-operatives are autonomous, self-help organisations controlled by their members" and "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". This should mean that co-operatives remain independent (Papageorgiou, 2004) and that a member should forgo short-term personal interests to the long-term common benefit (CSSDA, 2005).

5th: 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". A communal commitment to training and development sets co-operatives aside from traditional commercial enterprises (Papageorgiou, 2004) and the associated socioeconomic benefits, encourage membership to exercise and strengthen their democratic control (Birchall and Ketilson, 2009). Co-operatives should, as part of this principle engage with internal and external stakeholders, including the community, to promote the co-operative model and ensure continued engagement (Bickle and Wilkins, 2000; Papageorgiou, 2004; Birchall and Ketilson, 2009).

6th: Co-operation among Co-operatives. This 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”. The principle promotes the economic wellbeing of co-operatives (Birchall, 1997; Birchall and Ketilson, 2009), encourages collaboration, producing joint ventures, financial support and economies of scale (Jones, 2016).

7th: Concern for Community. ”Co-operatives work for the sustainable development of their communities”. Apart from their principal purpose, to serve the best interests of their membership, co-operatives also work for the development of their surrounding communities (Papageorgiou, 2004; CSSDA, 2005).

Fajardo Garcia (2012) claims that it is these principles and values that differentiate co-operatives from investor owned organisations. Furthermore, these principles and values facilitate the alignment of members’ interests, permitting them to collectively aim towards common goals (Nilsson, 1996). Moreover, co-operative principles should be consistently and continuously applied in the day to day operations (Parnell, 1995).

Having analysed the calls for post-2008 change, from academics and financial commentators, it could be argued that co-operatives, and more specifically credit unions, should be well positioned to respond with transparent products, tailored made to members’ needs. To date there is little evidence that co-operative financial models are being deployed, in scale, to ensure future stability. Indeed, evidence suggests that there is a growing divide between “co-op values” and “co-op business” (Novkovic, 2006, p.19). The literature points to the well accepted validity of the principles, but their adoption is entirely optional, and there appears to be some divergence of practice from theory (Novkovic, 2008). Shaw (2007) notes that two of the principles, namely, “autonomy and independence” and “member democratic participation”, are less universal than they once were, while others go further and note that financial co-operatives do not follow any of the seven principles (Oczkowski, Krivokapic-Skoko and Plummer, 2013).

Furthermore, there is evidence that rather than fostering a collective spirit for mutual benefit, some co-operatives simply provide a protective shield, where members seek individual protection against external forces (Wilson and MacLean, 2012). Wilson and MacLean (2012), researching (mainly) producer co-operatives in Scotland, found evidence that the principles were not of any great importance, noting that as time passes the principles diminish as a guiding philosophy. Similarly, Cabo and Rebelo, (2015) note a gap between what co-operatives do, and what they proclaim. These findings are also supported by Kelly (2014) whose report suggests that co-operatives no longer adhere to the principles, as witnessed by the Co-operative Bank UK’s failure to live up to its members’ expectations.

Wilson and MacLean (2012) as well as Oczkowski, Krivokapic-Skoko and Plummer (2013) call for further research to establish the extent to which the principles are practiced and indeed what actual role they now play. A call for financial change, harking back to the guiding principles off the co-operative movement, suggested that co-operative financial institutions, especially those serving a local community, such as credit unions, may offer a more sustainable and equitable financial future. The initial literature review reinforced such an opinion; however, there does appear to be evidence that the principles no longer directly impact on the business.

This paper answers two calls, firstly from the financial commentators who pondered if credit unions may at least offer a partial solution to the crisis of 2008. Secondly it addresses concerns expressed regarding the practice, i.e. how do stakeholders perceive the guiding principles; and to what extent are the membership actively engaged in governance? The research reported here focused on credit unions; they are co-operatives purporting to adhere to the underpinning principles and they are locally, community embedded providers of financial services.

Research approach

Based on the literature and the calls for further research the authors based their investigation around two research questions, namely, how were the principles perceived and actioned and; to what extent were the actual membership engaged in the democratic process.

The research, which commenced in 2013, was conducted in Cyprus, a country with a long tradition of credit unions embedded in local communities and an economy in post-2008 crisis. The prevalence of credit unions, combined with the uncertainties of the Cypriot financial crisis, provided the context within which to explore issues of accountability and governance.

Nine credit unions, based in three towns, agreed to participate with data being gathered through a series of structured interviews (employees) and focus groups (membership). Additionally, generic credit union statistics were obtained from the Cypriot co-operative supervisory body, drawn from a sample of 20 credit unions provided information on membership, the last three AGMs and last three Board of Directors' elections.

Thirty structured interviews were carried out, each of them lasting from 18 to 68 minutes, involving 4 general managers, 6 managers and 20 staff (15 with 5-9 years of experience and 15 with over a decade). The results of the interviews were summarized and returned to the interviewees to confirm both the accuracy and validity of the researchers' understanding. Furthermore, three focus groups, lasting each for over one and a half hours, were undertaken with membership representatives drawn from a single credit union, using a purposive sampling process, i.e. recruiting participants that were both able and willing to provide data. Participants belonged to the same profession and were members in the same credit union. The selected credit union was known to the researchers and existing contacts were used to recruit participants to the focus groups.
The focus group participants, 10 per group, totalled 20 males and 10 females, of which 7 of the males and 6 females were retired. The high number of retired members reflects the fact that credit unions are less attractive to a younger clientele. Both individual interviews and focus groups were recorded with the permission of the participants. All personal interviews and focus groups were then transcribed and coded in N-Vivo.
The interviews and focus groups were designed to address both research questions, i.e. how were the principles perceived and actioned and; actual membership engagement in the democratic process. The structured interviews contained questions relating to the

adherence of credit unions to their founding principles, the level of membership participation and involvement, ways to strengthen it, training of employees and the membership, communication methods employed, credit unions' distinguishing features and subjects discussed at AGMs. Similarly, during the focus groups discussions revolved around the distinguishing features of credit unions, the level of trust towards credit unions, credit unions' adherence to their founding principles, ageing membership, level and quality of membership services, participation, communication and; priorities (social Vs economic). The secondary data sources addressed only the second question, i.e. actual membership engagement in the democratic process.

Findings

For presentational and analytical purposes, findings have been grouped under each principle. It is worth noting that, the non-adherence to the co-operative principles may have been evident well before the financial crisis of 2013 as members were distant, there was no co-operative-related training to existing/potential members and the younger generations were absent.

1st Voluntary and open membership

Employees and members readily supported the voluntary and open membership policy. Indeed, there were no barriers to entering and/or to exiting the credit unions. Occasionally members may be excluded from active membership on legal or health grounds. However, the membership noted that recent regulatory actions, namely the State acquiring 99% ownership of the credit unions (a result of the 2013 Cypriot financial crisis), may simply make the first principle redundant! The above findings confirm that stakeholders support and value voluntary and open membership. This is line with the extant literature (Papageorgiou, 2004; CSSDA, 2005; ICA, 2012). However, the members' fears have been confirmed. In exchange for financial assistance of €1,5billion, the Cypriot state obtained 99% of the shares (CCB, 2013) and appointed a new Board of Directors, effectively de-mutualising the sector. The Cypriot state has committed to Troika that by June 2020 it will sell at least 75% of its shareholding in three chunks of 25% each through private placement or through the Cyprus Stock Exchange (Philenews, 2016). On 18 June 2018, the Cyprus state has sold the performing loans and the deposits in Co-operative Central Bank to the second largest investor-owned local bank (about half the size of Co-operative Central Bank), retaining the property and then Non-Performing Loans itself (Philenews, 2018).

2nd Democratic member control

Three aspects of the control dimension were examined:

(a) Participation in the Annual General Meetings (AGMs)

Membership participation at AGMs, as reported by the employees, suggested very low participation rates. The majority of employees put the figure at 2% or less. For example, employee IR17 said that "*due to the fact that we were celebrating the nth anniversary, since the creation of their Co-op, there were many more people in comparison with other times but anyway not more than 300 members",* and employee IR8 "*there were about 150- 200 people*", whilst, employee IR27 argued that "*there were 90 people in the last Annual General Meeting and 35- 40 people including the employees in the Annual General Meeting before the last one*". Moreover, employees suggested that even where there was engagement, that the attending membership, were overly guided by management, only rarely did members request changes to the agenda. The low participation rate was confirmed through data obtained from the office of the Commissioner of the Co-operative Societies Supervision and Development Authority (CSSDA). A sample of seventeen credit unions showed that recent membership engagement with AGMs never exceeded 8% with an average closer to 2%. Further, the focus groups also indicated a lack of engagement, for example:

"*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 so active as they should have been".

"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. Now we are not".

When prompted by the researcher, participants responded to the question "*in the past were active?*" as follows:

"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."

(b) Board of Directors' elections

Based on the individual interviews, the vast majority of employees claimed that less than 30% of members voted, for example employee IR29 said "*I am not sure. I think that not even 25% [of members] do vote*". The focus groups supported this, indicating that only a 30%-40% of members voted:

"FGN3: 1/3. I belive that it was 1/3.

FGN2: 50%.

FGN6: 60% from what I remember.

FGN5: 30%.

FGN4: Approximately 1/3. Something around there.

FGN10: Below 1/3. Sometimes I run as a candidate and I know what is happening. The percentage depend on who the candidates are.

FGN5: 18%- 20%.

FGN4: 1/5."

The data from CSSDA confirmed the low participation, as for the previous three Board elections, for a sample of twelve credit unions, an average of 7% of members participated.

(c) Board of Directors candidates

It was noted that there was often no need to hold elections. Incumbents sit for a decade unopposed and there is often only one candidate per position. For example, one employee, IR10, stated that for the past 15 years there had been no real change: "*at the elections, most of the members vote. Naturally, there were some years that the candidates were exactly as many as the seats available, something that may have happened twice. We might have had the same Board of Directors for fifteen years with only the president changing*". Moreover, IR25 noted that election calls may attract candidates, but many withdraw if an election proves to be needed: "*only once we had elections. The candidates withdrew*". Furthermore, IR9 stated that "*I think that there were 6- 7 candidates for 5 positions with only 1- 2 candidates being different from the candidates of the previous elections*", and IR5 noted that they "*rarely we have elections as usually there is a combination of candidates supported by the political* *parties resulting in three elections in the last twenty years (with the term in office being three years) with almost the same people as candidates*". On a more positive note, some elections have seen multiple candidates. Again, these observations were confirmed by the focus groups and CSSDA data (the norm would be 1.5 candidates per Board seat, but often credit unions struggled to fill all the Board seats).

The focus groups tended to reinforce the views on participation expressed by the employee interviews, for example:

"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 did not stand a chance on their own".

Given the general lack of alternative candidates and the tendency for lections to be non-contested, the focus groups seemed to be concerned that in newcomers worried about feelings of humiliation if they failed to be elected, even when they felt they could offer more than the existing Board members:

"FGL1: How can I run against these people?
FGL5: Simply because you could be better than them.
FGL1: This is correct.
FGL10: But you had to risk in order to get elected.
FGL1: To risk lose face you mean."

As to the number of candidates for each available position, members said that only around two candidates exist for each seat on the Board of Directors:

"*FGN11: 2,5 candidates for each available position.*
FGN4: Around 15 candidates for 5- 7 positions. More or less.
Researcher: 2- 3 candidates for each position?
FGN3: That is correct.
FGN5: Somewhere around there."

Also,

"*FGL10: Six {for 5 positions}.*
FGL2: Around 20 {for 5 positions}.
FGL12: 5- 6 {for 5 positions}.
FGL2: 20 are too much.
FGL12: 6- 8 mamimum. We did not show a lot of interest.
FGP1: There were not many.
FGP5: 3 candidates for each position.
FGP8: 2 candidates for each position.
FGP1: 2 candidates for each position."

As to the ways credit unions could increase their members' participation, members claimed that credit unions should open up to its members:

"*FGL6: ... Our Credit Union could open up a line of communication with its members. Something like what we currently do right now, but the members should be able to contribute with ideas, expressing their fears/ concerns. This could be used by the Credit Union to shape its future decisions.*
FGL10: Who would organize something like this?
FGL5: They could be undertaken in the working places of the members",

and/or by organizing informal member gatherings where exchange of ideas and suggestions can take place:

"*FGP1: More social interaction e.g. by organizing a pic nic on the mountains where and during which all the colleagues would meet and talk.*
FGP2: E.g. at Kykkos mountains.
FGP1: With a low fare giving us the chance to talk to each other".

It seems that members would take part in these kinds of meetings as long as management actually spend time to make it happen and personally talked to members in order to engage with them: *"FGN4: ... You could personally ring 40 members, personally, and invite them. You should communicate with the members in order to hear your voice. You oblige him a great more deal if you call him... Members like to have personal contact...."*

However, members were willing to stop free riding and actually engage with their Credit Union in cases where they felt that their personal interests was hurt: *"FGP11: Up until now we felt that our representatives in the Board of Directors were worthy and thus we felt secured. We did not feel that we had to protest, to shout as everything was fine. Now, it seems that we must start attending."*

Furthermore, members claimed that current "communication" methods, i.e. sending letters to their members is not effective but instead, credit unions should use the available technology (e.g., sms, emails):

"*FGN11: By sending letter but they should not wait until it is 2- 3 pages long in order to send it. A shorter letter as everybody would read a short letter. However, when people get a 2, 3 pages long letter they will not read it.*
FGN5: Through emails.
FGN11: Through sms on our mobile telephone.
FGN11: Through emails but they should not be 3 pages long.
FGN5: When I see a 2 pages long letter, I immediately throw it away. No matter what it is. I have my coffee to enjoy and I will not spend my time reading letters."

"*FGL11: Using the technology.*
FGL12: Through sms. It is very easy.
FGL11: Through emails.
FGL8: Using the technology: using emails, sms."

Also, members suggested the use of blogs:

"FGL6: Something a little simpler can be done. There could be something done with our Credit Union's website.
FGL5: Create a blog
FGL6: And everybody could log in and express his thoughts. Everybody has computers nowadays".

The above findings are at odds with the importance the literature places on democratic engagement and control (Fonteyne, 2007). However, the findings are supported by evidence suggesting generally low participation. Studies in the UK suggest 3% participation (Spear 2004); Sweden 3.6% (Nilsson, Kihlen and Norell, 2009); and Spain 6.1% (Chaves, Soler and Sajardo. 2008).

Low member participation has been associated with large and/or mature co-operatives (Novkovic, 2006; Chaves, Soler and Sajardo, 2008), or with factors such as a loss of cohesion, lack of incentives and transparency (Chaves, Soler and Sajardo, 2008), or length of director's tenure (Cabo and Rebelo, 2014).

3rd Member economic participation

Employees noted that members refrain from contributing financially to strengthen their credit union due to trust issues, a lack of certainty, and previous personal financial losses. The employees' perceptions were confirmed by the members themselves.

Findings suggest that a sustained economic engagement with the credit union is a thing of the past, with recent financial crises, combined with a general lack of engagement, cited as the cause. Literature suggests that ongoing commitment, financial or otherwise, by the membership lies at the heart of the co-operative movement (Papageorgiou, 2004; Oczkowski, Krivokapic-Skoko and Plummer, 2013).

4th Autonomy and independence

All participants believed that credit unions could lose their autonomy and independence as a result of the transfer of 99% of the shares to the state. When asked about their future, employees suggested Cypriot credit unions may cease to exist, fearing that they will become investor-owned banks or operate as if they were such. Once again the focus groups echoed the fears of the employees. The co-operative literature (CSSDA, 2005; Atherton et al., 2011; ICA, 2012) would suggest that the credit unions were amiss in not ensuring autonomy and independence when taking receipt of the State's €1,5 billion loan. However, such loss of autonomy is not a new phenomenon (Novkovic, 2006).

5th Education, training and information

All, except for one employee, considered that co-operative-related training and awareness would be useful, but all noted that their credit unions had not engaged in such activity for a considerable time. Those in favour of raising awareness considered that it could assist in strengthening the co-operative philosophy. Employees noted that their credit unions did not engage with the membership with regard to education or training. External communication and engagement centres on the services offered not the co-operative ideal. Members argued that their credit union should have taken measures to attract younger people more than a decade before. According to these members, the current situation is the result of lack of marketing and incentives, areas where investor-owned banks excel. Credit unions offer little of no co-operative-related training to their employees and members. Furthermore, no attempt has been made to educate younger generations or the general public; credit unions are characterized by an ageing membership. These finding concur with those of Oczkowski, Krivokapic-Skoko and Plummer (2013) and Novkovic (2006), who found a general disconnect between co-operatives and the training/educating agenda.

6th Co-operation among Co-operatives

The employees interviewed were in favour of collaboration. They saw potential in the merger of credit unions which may provide a more secure financial base and longer-term sustainability. The focus group results were mixed on this topic. Many members saw benefit in a merger programme, but others felt that the weaker credit unions would unfairly benefit from the endeavours of those more favourably placed. The individual interviews' results are in line with existing literature. They are expected to work together to overcome common problems and to exchange knowledge and experiences (CSSDA, 2005). Those focus group members who focused more on self-interest are at odds with the general co-operative literature. However as noted earlier, self-interest and protectionism can also be a rationale for establishing a co-operative.

7th Concern for the community

Employees suggested that credit unions could assist their members and their communities by becoming more engaged and supportive. Furthermore, given the challenging financial situation, employees suggested that credit unions could reduce the amount of loan instalments and interest rates, extend the repayment period of loans, offer new products and support a legislative change offering protection for borrowers' homes. Additionally, employees 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. Similarly, the focus groups' data indicate that even though the intention of credit unions 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 could not decide for themselves about the kind and extent of social expenditure. These findings are similar to Oczkowski, Krivokapic-Skoko and Plummer's (2013) who found that the majority of co-operatives assisted their community.

Discussion

With regards to the 1st principle, the results support the findings of researchers (Papageorgiou, 2004; CSSDA, 2005; ICA, 2012), with regards to the fact that credit unions are indeed open and voluntary organisations.

With respect to the 2nd principle, the results show that the majority of the membership do not participate, something that contradicts best practice, (Fonteyne, 2007) but does reflect the outcome of a number of studies (Chaves, Soler and Sajardo. 2008; Nilsson, Kihlen and Norell, 2009). As to the possible reasons for a lack of members' participation, the present study's findings support existing academic research, i.e. members feel that they are not able to influence decision making and have become dissatisfied with specific decisions (Edwards, 2013; Hakelius and Hansson, 2016). Other reasons for members' lack of involvement include the loss of local identity, a finding that confirms that of Nilsson and Svendsen, (2011); free riding, identified also by Edwards (2013) and; time horizon issues identified by Osterberg and Nilsson (2009). Finally, this research identified poor communication as a potential reason for lack of participation and lack of encouragement to participate, issues that were also identified by researchers such as Barraud-Didier, Henninger and El Akremi (2012).

As far as the 3rd principle is concerned, the present research seems to contradict the findings of researchers (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 may try to safeguard their personal wealth and interests (self-preservation).

With regards to the 4th principle, studies tend to support that co-operatives remain independent of the state (Atherton et al., 2011; ICA, 2012; Oczkowski, Krivokapic-Skoko and Plummer, 2013), however, the findings of this study suggest that unless the capital base is robust, as noted above, the membership will not invest further. Capital accrued in the "good times" must be sufficient to weather the storms of a downturn, if not the state may act.

The results relating to the 5th principle indicate that credit unions may not be investing in educating and training; a requirement noted by Birchall and Ketilson (2009). The present study's findings seem to be in line with those of Oczkowski, Krivokapic-Skoko and Plummer (2013), i.e. co-operative-related training may not be as common as expected, and this may lead to the reduction of members' participation.

With regards to the findings related to the 6th principle, co-operative collaboration was found to be desirable, in line with Birchall and Ketilson (2009), however, the membership rated personal interest more highly than mutual co-operation, which is more in line with the findings of Novkovic (2006) who found evidence that the co-operation among co-operatives was only superficial.

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 such undertakings.

Based on the above, the research suggests that within credit unions every effort is made to deliver on the 6th principle (co-operation), but the 2nd (democracy) and 5th (education) are essentially ignored. There was some evidence that the 1st (voluntary and open), 3rd (economic participation), 4th (autonomy), and 7th (community) principles were in the past considered and partially adhered to, but given the State intervention their future adherence is uncertain. These results may have been influenced by the current Cypriot financial situation, but none the less they seem well aligned to those of Wilson and McLean (2012), i.e. as time passes, the co-operative principles become less important to the membership.

The credit unions no longer appeared to deliver the key co-operative principle of engagement; the membership was alienated from decision making and governance. The majority of the membership were disengaged; this renders the mutuality of governance vulnerable to erosion over time; this finding echoes previous studies (Chaves, Soler and Sajardo, 2008; Nilsson, Kihlen and Norell, 2009). Weakened governance may allow a small group of members (an “elite”) to take control or allow management to operate with relative impunity.

Co-operative governance may also be undermined by the “temporal” demutualization of credit unions, as was the case in Cyprus, where, the state became a 99% shareholder. By doing so, the governance structure was overturned, eliminating any member-based controls and restricting controls to those imposed by the governmental officials. Moreover, state ownership has negatively affected the governance structure, as the removal of the member based Board of Directors has increased the asymmetry of information. 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.

Conclusion, limitations and future research

To the authors’ best knowledge, this is the first time that the adherence to co-operative principles has been assessed during a period of financial crisis. This crisis has impacted upon autonomy, accountability and indeed trust. Further, both employees and members have cast doubt upon the way the State intervention, resulting in the merger of credit unions, has been communicated and managed. The future of the credit union movement in Cyprus is at best uncertain.

General community engagement, as well as membership engagement and influence, have been declining. This combined with a lack of co-operative education and training, has over the years led to the alienation of the membership. In particular, there is evidence of a loss of trust, distinctiveness, cohesion and support. It seems that co-operative-related training should be a matter of systematic, structured and organised effort, particularly during crises. Moreover, this research has identified a divergence of views regarding the direction to be taken; employees stress the need for financial expediency, while the membership point to a greater need for social cohesion and action. These views, although no doubt influenced by the State intervention, are the result of a protracted period of general disengagement; the membership from the credit union, coupled with employees' and governance disengagement from the underpinning co-operative principles.

This paper set out to explore the extent to which co-operative principles still resonated with both the management (employees) and the membership. Co-operatives are alive and well. However, there is growing evidence that in general the principles are no longer a universal guide to governance and accountability. The credit unions that formed the basis of this research have long since departed from adherence to the founding principles. To all intents and purposes they are run by the employees for the benefit of the credit union (performance) rather than by the membership for the community (mutual wellbeing). Had the credit unions adhered to the principles and the membership maintained a guiding influence would they have remained independent, through the financial crisis is a matter for conjecture. What is far more certain is that credit unions, do not offer the utopian alternative that many had alluded to post the 2008 crisis. Co-operatives, their underpinning rationale and guiding principles, were, as noted previously, proposed as an alternative means of delivering financial services. This paper and associated research cast doubts on the validity of such claims.

The findings of this research cannot be generalised to all forms of financial co-operatives nor geographical regions. However, this does not hinder "logical generalizations" that may have within comparable settings (Popay, Rogers and Williams, 1998, p.348). Unfortunately, the research coincided with State intervention to avoid a worsening crisis developing within the credit union sector; this could not but impact upon the views, aspirations and emotions of the stakeholders as captured by this research.

The authors consider that similar research in other geographical areas and in other types of co-operatives may be useful in identifying the extent to which co-operative principles guide co-operatives' operations in practice. If the co-operative movement is to remain relevant and impactful, then it must move with the times and find ways of re-energising a more youthful and globally networked membership. This study essentially asked what has gone wrong. Why aren't credit unions and co-operative banking more impactful? Clearly the findings suggest a lack of adherence to the underpinning principles. This seems to have steadily eroded membership engagement. As part of a wider study this research has moved on to examine that can be done to rejuvenate engagement and align mutual benefits.

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