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Profit versus Non profit: a Third way?
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Italian Mutual Cooperative Banks

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Abstract

The traditional distinction between profit and non profit firms does not necessarily apply to some types of co-operative firms, such as the Italian mutual cooperative banks (MCBs). These MCBs present a peculiar governance structure, a combination between a public company governance model and a non-profit one. Similarly to a "not for profit organization", the ownership of the MCBs is widely diffused among borrower-owners, but dividends are not typically redistributed. Like in "public company bank", MCBs have a spread ownership and a board of directors. MCBs work in order to maximise social utility rather than profits, as a social entrepreneurship.

MCBs represent a kind of third way governance model in the financial sector. The board of directors of a MCB acts as a public-good administrator in deciding on how to invest, with a deep impact on the local community. However, the governance of these banks is affected by structural problems. The mutual and co-operative nature of these banks is challenged by the increase in the number of members-owners and in the heterogeneity of the member-owners group.

This study aims at investigating the democratic voting mechanism of the board (one-head one-vote) and its appropriateness given enlargement of the member's community. The research would tackle the issue of governance structure and incentive to efficient behavior.

JEL Classification: G21, G34, J54, L31.

Key words: cooperative firm, mutualism, cooperative banks, corporate governance, Italian banking sector.

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Introduction

The traditional distinction between profit and non profit firms does not necessarily apply to some types of cooperative firms, such as the Italian mutual cooperative banks (MCBs). These MCBs present a peculiar governance structure, with elements of the social enterprises and features of not for profit firms. Similarly to a "not for profit organization", the ownership of the MCBs is widely diffused among borrower-owners, but dividends are not typically redistributed. Like in "public company bank", MCBs have a spread ownership and a board of directors in charge of writing the agenda for the management's activities. MCBs work in order to raise deposits, as a normal bank, but they maximise social utility rather than profits, as a social entrepreneurship.

MCBs may be considered as a third way governance model in the financial sector. The board of directors of a MCB acts as a public-good administrator in deciding on how to invest the mutual fund. These decisions have relevant impact not only on the member's community but also on the local community as a whole. Especially in rural environment, where the MCB is in same case the only financial institution in the municipality, the board of directors of MCBs plays a strategic role for the development of the area. MCBs underwent, in the last 15 years, a phase of regulatory change due also to the fact that the entire Italian Banking sector was transformed and liberalized.

With the enlargement of their business, the governance of these banks could be affected by structural problems. In the governance bodies of the MCBs are represented different group of members. The mutual and co-operative nature of these banks could be challenged by the increase in the number of members-owners and in the heterogeneity of the member-owners group. While in small cooperative the peer monitoring of the members is sufficient to avoid abuses form the top managers, the increasing dispersion of the ownership of these bank might create problems of lack of monitoring of management behavior.

In this study we intend to investigate the governance features of the MCBs. In particular we will argue that the democratic voting mechanism of the board through the one-head one-vote system may be efficient when applied to a small cooperative but could produce problems in a large cooperative with thousands of members. The final result will show how the ownership structure of MCBs seems to be an appropriate answer to these challenges.

A large cooperative could show some features which are similar to those of a capitalist public company: ownership widely dispersed, rapid size growth, separation between ownership and control. The 'one-head one-vote' system is a strong obstacle to a hostile takeover, that could have play an important role in case of poorly management.

Moreover, the board of these cooperative banks is often composed by volunteers elected from the general assembly with little specific knowledge relating to financial or management problems, so there may be a problem of lack of human capital skill in the management of these banks.

The voting rule does not specify a weighted representation in the board for different categories of members, so the board could be biased by more powerful economic groups. Given the public good nature of the funds that MCBs re-invest in the community, and taking into account the weak incentive that members have in large cooperative to monitor management, private benefit from control or free riding behavior can be exercised by directors.

The membership structure, on the contrary, allows each single member to remove the board in case of miss-management by voting against the balance sheet. This threat is very powerful because there is no possibility for a major shareholder to collude with the board and approve the balance sheet without the support of the assembly. In case of increase in net profits that can create private benefits for the board, the members will press the manager for a improvement of the interest rate condition both of lenders and borrowers. The separation between ownership and control is guarantee through the two tier management structure.

Cooperative banks are very important actors in the Italian banking sector because they have very strong roots in local territories, they have long term relations with local firms and families and show information advantages with respect to large national commercial banks. The governance structure is, most of the time, a feature that creates additional value to the bank behavior, but over the last 15 years the banking sector has experienced a deep change due to a deregulation and to new rules. In this new scenario, many cooperative banks could have lost their mutual mission and have adopted more 'capitalistic' characteristics. The worry is about the adequacy of the governance structure at the increased size of the MCBs.

The paper is organized as follows: the first section describes the role played by mutual credit cooperative in the Italian banking sector; section two puts the cooperative movement into an historical perspective; section three deals with the governance model of the cooperative firms; section four analyzes the mutual banks in terms of the social enterprise approach and presents the key feature of their governance model; in the fifth section, the problems of consistency and inconsistency of the traditional rules of cooperative banks are evaluated.

1. Mutual cooperative banks and the recent evolution of Italian banking sector

The Italian banking industry is divided into three main bank typologies characterised by different kinds of stakeholders: Commercial Banks[2], with investor-owners, Banche Popolari and Mutual Co-operative banks[3] (MCBs), with borrower-owners. Differently from Banche Popolari, the shareholders of MCBs do not receive dividends. In the early 1990s a process of de-regulation reform changed deeply the Italian banking industry. The new Banking Law of 1992 represented a turning point, especially for MCBs. Thanks to the liberalization, the membership enrollment in MCBs was much more deregulated, geographical restriction to banking activities was abolished; lending maturity specialization was also abolished so that universal banking became the new standard, and a vast program of privatization was also started.

After deregulation, a mergers wave[4] has been the cause for the reduction in the number of credit institutes (see Figure 1). The process has significantly reduced its importance in the most recent years. The reduction of MCBs due to this structural process has been in part smoothed by the opening of new banks. The MCBs represent the 50% of the overall number of new banks from 1990 to 2000. In general, the establishment of new banks has been more concentrated in the South (59.5%), followed by the North area (24.1%) (Maggiolini and Mistrulli, 2001).

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[2] Saving banks could be included in the category because they change their ownership structure from a common ownership to a private one.

[3] Given their co-operative aim, in the literature co-operative banks are included in the not-for profit banks.

[4] As Gutiérrez (2008: 4) points out, "the 2003 special Fitch report on Italian co-operative banks indicates that mergers between co-operative banks were in many cases the result of weaker, troubled banks being acquired by a stronger co-operative bank".

At the end of 2009 the Italian co-operative bank system included 421 banks with 4,122 branches. The reduction in the number of banks has been balanced by a denser branches network that increases of the 83% from 1994 to 2008. MCBs are settled in 2,647 Italian municipalities; in 549 municipalities the local co-operative bank is the only financial institution (Federcasse, 2009). Most of the MCBs and their branches have been established in the north-east (43% of the total number), with a density 1.6 branch per 10.000 inhabitants (see Figure 2 and 3). The members/clients ratio is around 17% while the share of member on the overall Italian population is 1.65%.

The size of cooperative banks has increased: in 1999 cooperative banks numbered on average 5 branches with 42 employees; in 2009 these figures have increased until 10 branches with 73 employees per bank, 7 per branch. The increase size could be explain by the process of merger and acquisition that followed the liberalization and has allowed cooperative banks to extend their services to larger customers (Azzi, 2009: 15).

Cooperative banks have improved their overall performance and have not, as someone feared, been squeezed out by commercial banks. Their total direct funding accounts for 144.8 billion of Euro with an increase of 10.7 % compared to 2008. The assets are around €19.2 billion which correspond to the 6.33% of the overall banking industry assets. The change in the assets has followed the general industry trend, whit a decrease in the growth rate in 2008. The main assets of MCBs are represented by the direct funding given to clients and members, which accounts for 70.6% versus the 50.4% of the remaining banking industry, as showed in Table 1. Differently from the other banks, the tangible assets have a larger share for MCBs, while the inter-banking founding provision is less important.

Between 1999 and 2009, the funding provision of cooperative banks increased by 214 per cent; twice the rate of the rest of the banking industry (Figure 4).

Nevertheless, cooperative banks constitute about 8 per cent of total credit provision in the Italian banking system. Even if this value is increasing (in 2006 MCBs accounted for less than 7%) this level is still lower than in Germany and in Austria. The liabilities composition of MCBs has a peculiar characteristic: in 2008 the larger share of liabilities, almost 40%, comes from the deposits of clients and members while the share of the banking industry accounts only for 22% (see Figure 5 and 6). MCBs show a higher level of assets compared to the risky activities. The solvency ratio is almost double the official threshold requirement.

As for most European countries, the main influence of Italian cooperative banks cannot be identified in their overall market share, but rather in their specific objectives and services. The cooperative banks' knowledge of the local community gives them a competitive advantage in assessing and properly handling SME loans. It enables them to propose loan products that are adapted to the needs of their SME customers, including advice on available public support programmes (EACB, 2006). In 2009 loans given to small and medium firms go beyond the threshold of 20%. Counting together SMEs and productive households, their share is of 37.74%.

In conclusion, MCBs, after the liberalization has experienced a period of great growth, increasing their market shares in the overall banking platform and, in particular, in same specific segments such as SMEs lending.

2. The cooperative sector in Italy in historical perspective

The cooperative movement in Italy has emerged in the second half XIX century as an offshoot of the Society of Mutual Aid. Since its birth, cooperatives have been characterized by either a political or religious orientation.

The first cooperative wave was mainly inspired by the liberal thought, with strong influence by Giuseppe Mazzini (Zamagni, 2006). The cooperative form was used to organize consumer's and producer's group. Parallel to them a new form of retail bank emerged. The credit cooperatives were more overspread and deeply developed at the end of the 1870s.

A second generation of cooperatives emerged in the last decades of the XIX century, most linked with the development of socialism and communism. The new cooperatives made the North of Italy one of the most dynamic region from a productive point of view. In particular, to react to the agrarian crisis of the 1882-83, farmers from the Padana Valley organized themselves into groups of socialist inspiration. In this frame the first Mutual Cooperative Bank was fund in rural Loreggia close to Padua by Leo Wollemborg on June, 20 1883.

A third group of cooperatives was born to support the interests of Catholics engagement in social issues, after the encyclical of Pope Leo XIII Rerum Novarum of 1892 aimed to take concrete initiatives to stimulate economic development of rural inhabitants and urban proletariat (Zamagni, 2006). Starting from this document, many cooperative rural banks (Casse Rurali) were founded and quickly spread in several Italian regions.

The foundation of cooperative banks was supported by the Italian Federation of Rural Banks, coordination body founded in 1905 to promote the formation of catholic banks. The creation of a network, based on the two levels –i.e. cooperatives and the federation body - helps the coordination vertically (sector) and horizontally (spatial). This system enhanced the strengthening of the supply chains in order to increase their productivity and competitiveness of the banks.

Before World War I, Italy had a cooperative group every 4791 inhabitants, almost one per municipality. However, Italian cooperatives were affected by a quality problem, due to their poor assets and the actual volume of their business. Piedmont owned the 43% of the total national cooperative assets, while the cooperatives in Lombardy showed the highest level of business volume.

The structural limits of the cooperative credit sector become more evident in the post-war because of the economic crisis, the inflation, the growth of the unemployment and the weakening of the liberal government. The internal division emerged and the new political party, the Fascist National Party, looked at cooperatives as a good way to control and influence the working class (Zamagni, 2006).

After the closure of the second level cooperative institutions, Fascism started its own cooperative movement, with the establishment in 1926 of the Ente per la Cooperazione Fascista (Fascist Cooperation Institute). The fascist regime used the cooperative overspread influence as a tool for control and propaganda by entrusting the management of cooperatives representatives of the Fascist Party, not always qualified to manage them efficiently.

The cooperative movement were reduced in importance. The Bank Law passed in 1926 put the credit institutes under the supervision of the Bank of Italy. In the same year, the first central financial institution was settled and immediately hampered in its functions by the Agricultural ministry. Finally, the economics shortages faced by farmers before and after the financial crisis of 1929 have reduced the assets of the rural banks. From 1925 till the end of the second war the number of the rural banks reduced of the 66%[5].

In 1932 and in 1934 two regulation acts for rural credit banks were approved by the government. First, it regulated the entry of new members at category of workers different from farmers; secondly, it restricted the credit activity for rural banks only at the agricultural industry. This constrain was immediately relaxed, and in 1936 the new Banking Law extended the activities also at the artisans of the local

[5] In this frame some peculiar case emerged: in Sicily, where the rural banks were the backbone of the regional cooperative movement, their number reduced to 194 with a 50% of them in liquidation (Fornasari and Zamagni, 1997).

community. The main target for cooperative banks became the local community, but they should guarantee their preferential activity to members.

The new Civil Code passed in 1942 stabled price rules about the establishment of a cooperative, the value of the shares each member could hold while it did not specify the concept of mutuality necessaries to distinguish cooperative from other forms of firm.

The Italian constitution entered into force on 1 January 1948 recognized the importance of this industry in art. 45 and started a series of laws to regulate both its administrative and fiscal aspects.

The first law on cooperation, the “Basevi Act”, has been approved in 1947. The following year he launched the Consolidated Law on CRA (Casse Rurali e Artigiane) - Rural and Handicraft Banks- which are defined as cooperative societies with the primary purpose "the provision of credit to farmers and to artisans, jointly and severally". The internal democracy was guaranteed through some rules such as the “one head one vote” rule, the limitations on the shares owned by each members, the “opened door” rule for which it is not possible to negate the membership to those who answered to the enroll requirements without any valid reasons, and the prohibition of selling shares without the permission of the directors. The association should guarantee: (i) the prohibition to redistributes dividends above the legal limitations, (ii) the prohibitions of redistributing the reserves while the cooperative is alive, and (iii) the devolution of the social assets for some public utility goals at the end of the cooperative life. Finally, the law disposed the supervision requirements that in the case of credit cooperative banks were entrusted to the Treasure (Zamagni, 2006).

After the Besavi law, a long period of legislative silence started with two main exceptions: the regional law in Trentino Alto Adige in 1954 inspired by the Austrian tradition and the law on rural banks the following year. This last, while it maintained the principal rules[6], it introduced some innovative aspect, such as the divisions of the profits half of which should have be given as ordinary reserve, half redistributed to members with the limits of the 5%.

In 1992, the Banking Law has directly affected cooperative banks. Rural and Handicraft banks ware transformed in Mutual Cooperative Banks (MCBs) allowed not only to offer all the services and products of other banks, but also to become a partner for anyone operating in the territory. In order to strength mutuality, it was established that 3% of the yearly profits would have been address to the promotion and development of the cooperation. Cooperative banks should have devolved 3% of their annual net profits to the cooperative credit common fund.

The cooperative movement developed consistently from 1990. The employees increased of the 60.1%, ¼ of the overall national employment (Zamagni, 2006). Cooperatives enlarged their dimensions. The cooperative movement has been an emergent strength of the Italian entrepreneurship. In most recent years the cooperative movement enforced its role in the Italian economy thanks to a process of consolidation (Tables 4 and 5).

MCBs have been an integrant part of the cooperative movement. The strict linkages with cooperative firm in terms of credit have been deep especially in the most recent period of eradication.

3. The cooperative model of enterprise

The cooperative form is used in many industries: it could be imply in the production as if in the service industry. The origin of cooperatives is traditionally explained in terms of social, political or historical factors. Cooperative enterprises

[6] For example, the maximum of 1/5 for the non farmers and non artisans, the mutualistic elements of the banks with services preferentially deliver to members.

are often considered as organization model alternative to traditional capitalist firms and as a way to spread risk among several people.

But using the property right approach, one can say that cooperatives are in some cases an efficient solution for allocating control to two or more individuals even if it could not be consider a system to collect dispersed financial resources[7] to provide capital for large enterprises.

In general, one feature that may distinguish a cooperative from a capitalist firm is that the owners of a cooperative have also other kind of interests at stake in the firm: they are employees or consumers of the products of the firm.

The cooperative model may characterize organizations that have very different objectives, in some cases they are closer to not for profit organizations producing public or quasi-public goods, but in most of the cases they are firms operating in competitive markets.

In general, there are consumers' cooperatives which provide goods to members and sometimes also to the all consumers; producers' cooperatives that are association of workers who share the production means and share the monetary return. There are also credit cooperatives that lend money to their members who invest their savings in the credit coop itself.

In 1864 Léon Walras started a credit cooperative (*Caisse d'escompte des association populaires de credit, de production et de consummation, Société à responsabilité limitée*) together with L. Say and J. Simon. Walras thought that cooperative firms were a model somewhere between state-ownership and capitalist firms. Walras (1865) maintained that workers in a cooperative firm were also owners and so had additional incentives as compared to workers in a traditional capitalist firm; but

[7] Considering the case of MCB, the price paid to become a member, that could be consider as the price to acquire a share of the bank, is fixed by law and it could not be more than 500€. Given the "one - head one - vote" rule, members have no incentives to own more shares. The capital collected is then quite low.

cooperative firms should also be viewed as a system to collect dispersed financial resources and to establish new enterprises.

Maffeo Pantaleoni (1898 and 1924) argued that cooperatives were not charitable institutions but they were based on the egoistic goals of their members. According to Pantaleoni, however, cooperative firms had a sort of exclusive approach: once a given size was reached old members excluded new membership of new workers or consumers because this would have reduced the profit and the control capacity of the original members.

In more recent times, a new literature developed on the so called 'labour-managed firm' (Ward, 1958; Domar, 1966; Vanek, 1970; Meade, 1972 and 1974). The kind of firm studied in this case was called 'Illyrian firm'. The Illyrian firm was represented by a group of workers who organised teams to produce a given product or service. This firm did not have a true internal hierarchy and was self-managed following a democratic principle: one man, one vote. Workers were not the owners of the assets of the firm but were entitled of the usufruct.

A typical question that was studied in this literature was the problem of measuring individual contribution to production in a firm based on team work.

One possible version of the Illyrian firm was the so called 'pure-rental firm', that is a firm in which workers could only rent the assets from the State (Yugoslavia was a socialist country) and the net surplus produced was to be distributed among the workers. There was no ownership right that could have been sold from one worker to another or to third parties. Workers had the right to hire new workers. While a capitalist firm had the goal of profit maximization, a self-managed firm had the goal to maximize workers' per capita net surplus. Team working could arise monitoring problems because individual effort was difficult to observe and to verify and so free riding, opportunistic behaviour could be much diffused.

James Meade (1986 and 1989) had the idea that a direct participation of workers to the ownership of firms would have a positive impact on their incentive to work. Meade distinguished four different types of labour participation to firm governance: labour-managed cooperative; employee share ownership schemes (ESOS); profit-sharing; discriminating labour-capital partnerships. In a labour-managed cooperative the entire capital of the firm is held by workers. This kind of firm is efficient if its size is limited: if the number of workers-owners is not very large than there is sufficient incentive and possibility to monitor each other contribution to the common work, if the number of workers-owners becomes very large there will be a free rider problem. ESOS enables workers to become owners of a relevant part of the capital of the firm but does not give them any control rights. ESOS are basically an investment fund that ensures a return to workers and give them additional incentives to work. Profit-sharing is a model in which workers do not receive shares of the firm but have only a part of their compensation that is a fraction of total profit of the firm itself. Workers in this case are not owners but only employees. Discriminating labour-capital partnership is what Meade thought to be a new model: two types of shares were to be issued, labour-shares and capital-shares. Labour-shares were to be given to workers and could not be re-sold; capital-shares were to be given to the investors. Workers and capital investors were receiving dividends. Dividends were the only kind of compensation also for workers, that did not have anymore a fixed wage and this should have generated very strong incentives.

3.1 The corporate governance of cooperative firms

The Illyrian approach and Meade's partnership view were concerned with labour managed firms and typically assumed that historical or political reasons may explain the emergence of cooperative firms.

A different view is that derived from the property rights approach of Grossman and Hart (1986) and Hart and Moore (1990). In a context in which contracts are incomplete, and individuals have different human capital, different talents property rights on the assets that are necessary for production are efficiently allocated to the individuals who are indispensable to the production process and whose contribution to the firm's surplus is maximum due to their ex ante investments. The individuals who hold property rights over the assets have in turn maximum incentives to invest in specific human capital necessary to manage the firm and have lower risks to be expropriated ex post by other parties.

A cooperative firm is characterised by common ownership and it may be an efficient model when a specific entrepreneurial project, a specific bundle of assets are linked not to a single person but to a 'key group' of individuals (those who have the right talents). This 'key group' is made of those individuals who collectively have the human capital more valuable to the specific entrepreneurial project involved; in such a case control over the firm should be allocated to this key group and decisions should be taken together according to some simple rule (democratic). In a cooperative, following this approach, a group of workers have the opportunity to become entrepreneurs, giving them strong incentive to be more innovative and risk taker.

A consumer cooperative can be viewed as system through which a group of consumer (the 'key group') coordinate their actions in order to gain some of the oligopolistic rents available in the distribution sector: the cooperative will make collective purchases of goods and sell them at a discount to the coop members or to the public at large.

Cooperative can be consider as a way to solve some segmentation of the markets. Market imperfection in the credit sector may explain why it may be reasonable and efficient to create a credit cooperative (Hansmann, 1996). When, for example, financial markets are imperfect, individuals (typically young people) without a credit history, new potential entrepreneurs may have difficulties to get loans form a bank or to issue bonds. In such a case, these individuals may establish a cooperative each of them subscribing a small fraction of equity capital.

Strong fiduciary links among individuals, mutual trust may enable them to overcome asymmetric information problems in the credit sectors. A credit cooperative is fundamentally based on robust mutual trust among a group of individuals who belong to the same territory, share the same values, know each others and may monitor each others and so more easily provide financial resources to those who need them.

A cooperative is thus characterised by some factors: a dispersed but strongly linked ownership structure; a "one head-one vote" system, regardless of the amount of shares a members has he is entitled of only one vote (democratic system); the use of a fraction of profit for mutual goals. Cooperative shares are not completely tradable on the market, because new subscribers are subject to approval by old cooperative members; in some cases some specific prerequisites are necessary in order to become member of a cooperative (in some cases cooperatives are open only to some types of members, for instance their workers, or the membership is geographically constrained).

The directors of a cooperative firm have to be also shareholders or members; this is to ensure that those who manage the firm have clear mutual ideals. The manager can be chosen among the members or being hired among the professional manager. Usually, MCBs are managed by manager appointed among the bank employees, based on internal career.

We may distinguish between small cooperative and large ones. In the first case, the limited number of members ensures that each of them will be able to monitor the manager's behaviour and so reduce possible opportunistic behaviour.

But when we are dealing with large cooperative, with thousands of members, the choice of having a member manager and not to hire professional managers from outside may be a problem. In this case, each member will have small incentives to monitor the manager's behaviour and will free ride. Managers may have opportunities to extract private benefit of control.

In many cases cooperative have limit to individual ownership: each member cannot have more than a given amount of shares. In general, the democratic voting system and the necessity to have an approval from old members in order to purchase cooperative shares create very strong obstacles to the possibility of hostile takeovers. An external investor who thinks that a given cooperative is poorly managed and that is currently undervalued cannot make a tender offer and get control of it.

4. MCBs: a social financial enterprise.

As Pantaleoni stated in 1898, "Cooperative enterprises are economic enterprises as organizations which tend to produce cheap goods at a lower cost than with other means could be done to the benefit of those who are company shareholders. Interest individual is the strength of which they are a manifestation. Alternative forms are charitable function and function Forced[8]." (Mosetti and Santella, 2000: 3). Cooperatives can be seen as an answer to monopolistic power. The aggregation of members, thanks to their critical mass, can solve the market segmentation by creating an alternative provider of a good or of a service for specific segment of the market (Hansmann, 1996).

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[8] "Le imprese cooperative sono imprese economiche in quanto organizzazioni tendenti a produrre beni economici con un costo minore di quello che con altri mezzi si potrebbe, a vantaggio di coloro che dell'impresa sono soci. L'interesse individuale è la forza di cui esse sono una manifestazione. Forme alternative sono la funzione caritativa e la funzione coatta (consorzi di bonifica)" (Pantaleoni, pp.142-143).

The emergence of MBCs is also explained by the asymmetric information theory. Commercial banks tend to solve the uncertainty due to the lending relationship through financial guarantees and capital self owned. Monitoring and reputation are elements valued into a transactional lending activity. MCBs enter into the segment of the market usually not eligible for formal loans. As a social enterprise, a MCB is born to answer the unanswered request of subjects not profitable for the traditional enterprises. The exploitation of market interstices allows social enterprises to behave as a monopolist in that peculiar area, facing as competitors others enterprise of social nature. However, the coordination of cooperatives and social enterprise into second level organization reduces the possible competition.

Cooperatives are intrinsically different from non for profit organization. While the target for this last organization is external, cooperative mainly works in the interest of members. Furthermore, the not for profit organizations solve asymmetry of information as well as cooperatives. However, when the cost for creation of a cooperative is higher than the interest of the principal given the limited goal to reach, then a non for profit organization will be settled (Mosetti and Santella, 2000).

Considering the "non distribution constrain" as a rule of thumb in order to asses the nature of a firm, it is not necessaries to search for altruistic elements in the objective function of the organization. Using this classification, some cooperatives, as MCBs, can be labeled as not for profit. However, this decision rule is too broad and leaves room for misspecification. MCBs fit most, if not all, of the characteristics that both define cooperatives and social enterprises. However, they are different from not for profit organization, even if MCBs do not distribute dividends because their principally act for members' interests.

As mentioned before, Italy is a country with a high concentration of cooperatives of different types. Two main characteristics need to be underlined: the propensity to create a network among cooperatives, on the one hand, and the consciousness of their social utility, recognized by the Constitution of the Italian Republic, on the other hand (Fici, 2010). Cooperative are recognized and protected by the Constitution under art. 45. The article states that the Republic recognizes the social function of cooperatives which show a mutual character and no private speculation purpose. In order to be acknowledged as cooperative two main requirements need to be matched: the mutual character and the absence of speculation purpose.

MCBs are regulated by the Italian law as cooperative banks together with Popular Banks. Both are required to satisfy the "mainly mutual with members" requirements in order to be eligible for tax reduction. However, same differences remain. Mutual banks have focused more on the internal growth enacting the role of local bank and choosing as preferred segment of the market small and medium firms. Popular banks preferred the external growth enlarging their size through mergers and acquisition with non cooperative banks (Alexopulos and Goglio, 2010).

Mutuality is the main component of the objective function for MCBs. As stated by Fici (2010: 8), "a cooperative, like for profit companies, is a company which acts in the interest of its members, and that the common interest of members may also be financial, even though technically non-lucrative". MCBs can be seen as banks pursuing an internal interest, concerned of their members' welfare, though a non-lucrative aim.

The characteristics that enable cooperative banks to successfully exploit their strategic market position are:

- The proximity to clients;
- The geographical and social homogeneity of clients;

- The ownership structure in which clients/members are included;
- The peer monitoring;
- The common ideology;
- The mechanism for clients screening (specific economic agents, rating).

The ownership structure with customer-owners and the managerial structure permit the reduction of the transaction cost and the improvement of the overall efficiency.

4.1 The ownership structure

Cooperative banks, both MCBs and Popular Banks, are owned by members.

Popular Banks can be labeled as "pseudo public company", given their overspread and fractionated ownership (Brindelli, 2002). Their members are of four types: customers, employees, auditors, and investors. The control of shareholders is indirect. The constraint on the individual capital ownership at the 50% of the overall social capital avoids the realization of private benefits. The possibility of ownership concentration is erased[9] by the democrat "one head one vote" rule. Finally, popular banks do not have limitations on the area of influence.

The ownership of MCBs is in the customer-owners hands. MCBs are more constrained by the "mainly mutual" requirement that translates into two main rules: the largest part of the annual net profits has to be devolved into the reserve found, and a minimum of 50% of lending activity should be addressed to members. Members own the MCBs thanks to the shares they buy at the entry moment. The new Banking Law of 1992 fixes the range of price for each shares by clearing stating not only the minimum price, 25 €, but also the maximum, 500 €, per share. In order to avoid the concentration of ownership, it is not possible to buy shares for a value above 50.000€. Given the democratic voting rule of "one head one vote", an hostile

[9] It is the possible to concentrate ownership through the acquisition by homogenous members that guarantees the majority of head with a previous agreement with the board.

take over strategy will not lead to increase power in the decision making process[10]. Members cannot even have a lucrative interest in owning more shares because MCBs do not distribute dividends to shareholders[11].

The different ownership structure has as consequence a different goal function for MCBs and Popular Banks. Popular Banks deal with heterogeneous holders with different, and in same case contrasting interests. They have to maximise a composite utility function, where the investors play a prominent role (Trivieri, 2005). MCBs have more homogeneous members. The utility function they have to maximise is target on customers-members. Actually, even in MCBs it is possible to underline an internal conflict. Member-borrowers and member-lenders have contrasting preference on the interest rate value. The borrowers ask for a low price of capital, while the lasts lobby for a higher interest rate on deposits.

Looking at data, the borrowers are a subset of members that represents the 57.7 % in 2009 of the total number of members. The fact that almost half of people who subscribed a membership share of MCBs are not interested in lending money could be justified by two elements. First, members share the ideology of the bank and renounce to short term benefits (higher interest rate) in order to exploit the possibility in the future of a preferential lending relations. The second reason is linked with the services provided by MCBs, which guarantees to members a personal relationship with the bank management. As a worker of a social enterprise, that decides to earn a lower salary but to have more flexible and better working

[10] The only reason to hold a larger number of shares is to support the cooperative bank and it is the signal of a strict preference for this to type of banks to survive.

[11] From art. 2514 of the Italian Civil Code, mainly mutual cooperatives cannot distribute dividends on the subscribed capital superior to the maximum interest of postal bonds increased by 2.5%. This limit regards "dividends". Moreover, these cooperatives cannot distribute reserves to user-members and they shall return in case of dissolution, all their assets to the mutual founds for the promotion and the development of cooperation (Fici, 2010).

condition, so a lender chooses MCBs for a durable and more personalised relationship with the bank.

However, it is always the case that a member invests in more than one bank: commercial banks are exploited for the lucrative activities, while MCBs become a coffer for the long-term. The members of MCBs can also choose it as their banks just because they do not have other alternatives: either those people are not eligible for a loan in a commercial bank, or in the surrounding area MCBs is the only available bank. Furthermore, the fact that members and customers can collude on the same people, reduces the asymmetry of information problem and, as a direct consequence, reduces the transaction costs. The basic idea is that the ownership of the firm, in the absence of specific legal provisions that limit the choice, should be assigned to the class of stakeholders that minimises the social transaction costs (Hansmann, 1996; Turati, 2004). As Angelini *et al*. (1998:949) stated "The special quality of these banks seems to stem from their ownership structure […]." MCBs can easily minimise social transaction cost is thanks to their ability in collect soft information given by their ownership structure.

The overspread ownership results in higher cost and higher level of complexity of monitoring that could reduce the monitoring power of shareholders. However, the membership nature of the ownership structure prevents managers to fully exploit their position and to enact activities that result in private benefits. The threat of the "not balance sheet approval" has efficiently worked to avoid free monitoring behaviours. In the UK, one of the first consequences of the demutualisation process has been the emergence of professional management pursuing personal goals together (Davis, 2005).

4.2 The managerial structure

From the managerial point of view, MCBs present the traditional cooperative structure with a three tier system of administration and control. The main bodies are: the member assembly, the board of directors and the supervisory body (see Figure 7). The system is integrated by the arbitrors whose role is to mediate between the board of directors and the members for their admissibility or remove from the bank.

The member assembly is in charge of appointing the directors and supervisor during the annual meeting. All members can take part at the assembly and vote on the "one head one vote" democratic principle. The directors are voted among the members and they are in charge of the management of the bank. All members have one vote and a maximum of three terms can be given to a single member. Democracy is a central issue in cooperatives. It permits to all members to play their control and decision role even if one of them plays a marginal role as shareholders.

The board of directors should be representative of the local communities in which the bank is settled. They are not elected for their professional skills in the financial sector, but thanks to their personal linkages with the community. In deciding about the lending policy, the directors act as public administrators who have to allocate a public good. The benefits of this allocation are not strictly limited to the community of members but can easily result in a trickle down effect on the local economy. The directors and the manager exploit the soft information as comparative advantages, when deciding on lending. As explicitly states by the Banca d`Italia Supervisory Instructions, the direct knowledge of a member does not exclude the fact that the attention should be focused on the lending as a risky activity.

The social monitoring passes through two bodies. The supervisor's body, elected by the general assembly with the usual voting rule, has to control compliance with the law and the statute, especially for accountability issues. The arbitrators, elected by the assembly, have the main role of mediating between the directors and the future members. Arbitrators could not receive any remuneration for their activity.

The manager is the technical figure, who translates into operative actions the strategic directions planned by the board. He is under the control of the board and the supervisors, and, even more, of the members with whom he usually has a direct and even personal relationship. However, due to the broad ownership of cooperatives, Guitiérezz (2008) argues that cooperative governance limits the control of members over the management. Some studies have tried to link the performance of the bank with the ownership structure. Akella and Greenbaum (1988) found that the cooperative banks increased the intermediate founds above the level of maximum profit and in any case above the others banks level. The incentive in controlling managers is minimal because there are no residual rights linked to the ownership. This puzzling scenario has not yet fund a clear solution.

The manager is appointed by the board and he is often chosen among the employees with a longer carrier into the bank. Given the fact that the internal career is used as an element for appointing managers, the result is lower turnover. Lower turnover is positive when the bank is performing well because it guarantees continuity but it is harmful when the performance is ineffective because it constrains the board's ability to appoint a better manager (Ferri et al., 2001).

Even if the nature if MCBs is not to redistribute divides to members, their ownership and managerial structure frame them into the cooperative enterprises. As cooperative the linkages among members are the glue for the structure and the strength in a competitive market. The peculiar ownership structure avoids the free riding behaviour that characterised public company even when tools as the take over threat are not available. The interesting question is then about the future of the MCBs, given the challenge rising with members increase.

5. Italian cooperative banks in transition.

According to economic theory, firms' growth is beneficial because it allows the exploitation of scale economies. The search for economies of scale has been mainly the consequences of the market liberalisation in 1992. MCBs in Italy were traditionally small in scale and simple in structure. Members were an active part of the decision making process thanks to the democratic voting rule. The management and the boards were subordinated to the will of the general assembly.

The new banking regulation of 1992 has had a deep impact on Italian MCBs. The process of mergers and acquisitions has reduced the number of MCBs, but it has enlarged their size to exploit some economies of scale. Furthermore, it has expanded the number of owners. By weakening the social requirements to be admitted as a member, farmers and artisans were no more the only beneficiaries of the MCBs. All the economic categories could join the cooperative bank and exploit the mutuality. As a result, the bottom floor of the MCBs has been transformed into something more complex, while the managerial structure has not evolved accordingly. As Birchall and Simmons (2004: 488) point out, "a key question for co-operative theorists and practitioners" is whether it is still possible for larger-scale co-operative and mutual businesses "to remain true to the principles on which they were originally founded".

A tension arises. Many authors claim that the growth of Italian MCBs can be explained by their ability to exploit soft information (Colle, 1998; Ferri et al., 2001; Girardone et al., 2004). At the same time, managers are control at lower cost because the direct and even personal relationship with members commits them to a non-free riding behaviour. However, their increasing in size, resulting from mergers and acquisitions and from the liberalization process, challenges these traditional advantages. More dispersed ownership weakens the informal relationship between members and management and raises problems of asymmetries of information. The problem of ownership and managerial evolution is crucial for understanding the changes in the performance of MCBs, and their adaptation process to the new market context (Mosetti and Santella, 2000).

5.1 MCBs' Managers: still a friend?

The collection of soft information[12], gathered by face-to-face relationship between the borrower and the lender, is feasible when there are repeated interactions between the same people. The deepening of information is related with the ability of the two parts (manager and member-borrower) to trust each other and to collect more information than the usual minimal requisite level. In order to exploit the benefits of being a member and receive loans at better conditions, a personal relationship is required. Furthermore, as the number of interactions increases, the problem of poor verifiability arises for soft information deepens. The enlargement in size transforms this problem into a huge obstacle that will oblige manager to prefer hard information instead of the soft one, erasing MCBs advantages. The manager plays a fundamental role thanks to his ability in organizing the branches in order to be as closer as possible to the member-customer necessities.

As a matter of fact, in the last ten years in Italy, MCBs increased their dimensions. The number of members per MCBs has more than doubled, moving

[12] "Hard information is almost always recorded as numbers. Thus in finance we think of financial statements, the history of which payments were made on time, stock returns, and quantity output numbers as being hard information. Soft information is often communicated in text. It includes opinions, ideas, rumours, economic projections, statement of management's future plans, and market commentary. The fact that hard information is quantitative means that it can easily be collected, stored, and transmitted electronically. A second dimension of hard information is the way in which it is collected. The collection method need not be personal. Instead the information can be entered into a form without the assistance or significant guidance from a human data collector. This has the advantage of expanding the geographic and time dimensions across which data can be collected" (Petersen, 2004: 5-6).

from an average of 1,051 members to the most recent value in 2009 of 2,363 (see Figure 8). For some regions[13], like Piedmont-Valle d`Aosta-Liguria, the number of members per MCBs is more than 7,500. Not only the average ownership base has enlarged, but also their working area has expanded. The number of branches has increased of 1,260 units, from 2,862 in 1999 to 4,122 in 2009. Actually, the liberalisation allows the opening of new branches also in area not directly under the MCB influence. A good example is Liguria that in 2009 counts 28 MCB branches but no MCBs settled in the region. Soft information is recognised as an important element for MCBs[14]. Furthermore, the structure of cooperative banks has changed: ten years ago MCBs numbered on average of five branches with 42 employees; in 2009 these figures have increased until ten branches with 70 employees.

Managers acting as loan officers are crucial in the MCBs lending process. Officers in Italian MCBs can autonomously lend money for a maximum amount that averages at 114,000 Euros (see Table 7). This data is higher than the amount small bank's officers are allowed to manage. The manager discretionary in lending decision increases with the size of the bank, as Benvenuti et al. (2010) asses in commenting the result of a survey conducted in 2007 among Italian banks. Furthermore, bank size negatively impacts on the competitive advantages smaller banks have with SMEs. MCBs, as well as small banks, decrease their expertise in assessing opaque borrowers` creditworthiness (Benvenuti et al., 2010: 13).

Finally, the relationship between borrowers and lenders, in order to be affective and result in soft information collection, needs to be a long term

[13] "Region" in this case does not refer to the administrative region, but the aggregation level used by Federcasse. Piedmont, Valle d`Aosta and Liguria are counted as one, as well as Lazio, Sardegna, and Umbria, but also Abruzzo and Molise, and Puglia and Basilicata. The Province of Trento and Bolzano, normally accounted for administrative purpose as one region, are in this case separated. The reason is related with the density of MCBs per area. In Liguria, for instance, there are no MCBs settled, while in Trentino the concentration is the highest.

[14] In the survey Benvenuti at al. (2010) report on, 108 over 184 MCBs mark the role of non traceable-information as "crucial" or "very important" (see Table 6).

relationship (Longhofer, 2000). When the manager turn over is high the interaction with borrowers cannot be personal and it is mainly based on hard information. Quoting again Benvenuti et al. (2010) work, they underline how the turnover increases with the bank size. As shown in Table 7, the average stay in a MCB is of 49 months, while it decreases at 32 months for larger and medium size banks. As reported through the mentioned survey for some MCBs the permanence of a manager can be higher than 60 months, while for larger banks it is about 36. The internal career assures continuity in the interaction between the appointed employee and customers.

The ownership structure of MCB is enlarging, but its characteristics still differentiate it from a public company. The comparative advantages given by the strict relationship between borrowers and lenders is related with the small size of the bank and with its membership structure. The lack of hostile takeover threat is compensated by the power that every member has in changing the poorly managing directors. Even when the number of member in the assembly is so low that it seems to reduce the monitor over the board, there is no possibility for a single shareholder to collude with the board against the interest of the members.

5.2 Increase in size, increase in the opportunistic behavior?

The directors of the board decide the lending and investing strategy of the bank. They also are in charge of the distribution of the profit share that has to be given to local associations or charity purpose. In this sense, the directors act as a governor that has to distribute a public good. Thanks to the "one-head, one-vote" rule, there is no way for which a group of members can exercise some lobbying power by acquiring the majority of the shares. Directors have to answer to a few requirements.

The statute enlists the elements used as a proxy for the request moral integrity of the candidates. No others features[15] are necessaries to be elected.

The increase in the number of members impacts on this voting mechanism. Birchall and Simmons (2004: 489) underline that size becomes an issue when co-operative organisations move toward more lose touch with their members. Like other co-operative organisations, MCBs are affected by the size issue: the increase in size reduces member mobilisation and favours free-riding behaviour that leads to increasing monitoring costs (Birchall and Simmons, 2004). Hansmann (1996) argues that the governance of cooperative banks becomes less stable as the number of members increases. The weakening of democratic control by the general assembly on management may lead to opportunistic lending policies.

The enlarging of the membership at members others than artisans and farmers increases the heterogeneity in the group. The first result is an unbalance in the composition of the boards. It is not guaranteed that all economic industry working on the area will be present in the board. A good example is represented by farmers, for which traditionally MCBs were settled. Their number is decreasing even in the rural area, so their relative weight in the assembly is lower. A candidate from the farming industry has fewer supporters and it is less probable that it will enter in the board. On the contrary, the increasing sector of services has a larger voting base and the probability of entering the board is higher. This board composition is democratic in the sense that it represents the larger share of members. The point is that it has no room for the smaller groups to play a role in the decision process. They are cut off. The biased economic composition can affect the strategic choices of the board, which will invest more into the industry the director owns.

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[15] In order to be appointed as president a minimal experience as director in the board is necessaries.

The mobilisation of individuals is more difficult in larger organisations than in smaller groups. As Olson (1965) has underlined, individuals have less incentive to contribute in larger groups because the larger a group is, the lower value of a unit of the collective good that each member receives. Moreover, a larger group requires more co-ordination and higher monitoring costs. The increase in the number of owners reduces the incentives of each member to control the directors and manager effort, and to actively participate at the social life of the bank. The lack of a takeover threat, due to the "one head-one vote" rule, avoids the possibility for a single member to effectively represent a danger for the established power. The spread of ownership makes the individual position less important in the general assembly. Even the social control on the board and on the manager is reduced by the increased distance both geographical and personal. The result could be investment policies detached by the interest of the community of reference. Once again the "non approval of the balance sheet" threat in the general assembly together with the social monitor of the directors that are part of the community, seems to be sufficient to avoid free riding behaviour.

5.3 More dispersed ownership and better performance: a contradiction?

The enlargement of the number of members reduces the incentives to control the manager and the board given the increasing costs and the lack of personal motivation. The manager of the MCBs can be aware of the lack of capital market discipline and of the lower intensity of the social monitoring pressure. The predictable behaviour is driven by a preference for short-termism and a reduction in the efficiency. As Fama and Jensen (1983) pointed out, the ownership structure matters. The accountability of managers to owners in a mutual enterprise may be greater than in a private company because each member can independently exercise its right to withdraw funds in case of managerial inefficiency. The efficiency in mutual banks needs to account from one hand, for members interests in the maximisation of the social welfare, on the other hand, for the minimization of the spread between the borrowers and depositors spread (Altunbas et al., 2001).

What emerges from data is that MCBs are not just enlarging in their size, but are also improving their economic performance. The amount of deposits in the last decade increases by almost 42%, 7 points less than the other banks. In the period 2007-2008 the variation in the amount of deposits of MCBs was closer to the variation of other banks: MCBs increases deposits for the 10%, while the other banks of 11%. Assets in 2008 increase by 10% while the banking industry as a whole shows a positive variation of 3%. Intermediate founds rises at the same speed of the rest of the industry. MCBs play an important role during the crisis in financing the Italian economy, especially for SMEs. The amount of lending per bank increases from 2007 to 2008 by 8.5%, accounting for the 5% in the Italian credit market; while the other banks increase loans only by 3% (see Table and 3). The larger number of credits has a counterpart the worsening of the quality of the loans. In the same period, the insolvability varies by 16.4 %, a point less of the variation in the remaining banking industry. During the crisis, co-operative banks continue to serve the needs of SMEs for investment capital with an increase in the share of supplied credit by 14 per cent points. These basic statistics give the idea that MCBs are not just increasing in the number of owners and in branches, but also in their impact on the economy (Draghi, 2009).

Here a puzzling scenario arises. Does the actual performance mean that the mutual cooperative system is not subjected to the usual opportunistic behaviour given by the weakening of the monitoring power typical of the overspread ownership company? Could it maybe be the case that MCBs has not yet reach the “critical mass”, the turning point after which mutuality and cooperation are no more feasible? Birchall and Simmons (2004) present the results of a study made for consumer cooperative in UK. The results show that after 15,000 members there is no room to consider this enterprise still cooperative. If this is the case, MCBs have to choose if they want to enlarge their structure with the risk of loosing their comparative advantages and transforming their form into a commercial public bank, or if they prefer to exploit their relational advantages and strength their position in their market segments.

6. Conclusions

A more widely dispersed ownership structure could transform MCBs into a new model of enterprise closer to a 'pseudo-public company'. Given the lack of the monitoring tools, managers and directors could turn to a free riding behaviour that maximise their utility function instead of the owners' one.

But the ownership structure of MCBs is a powerful antidote against these threats. So far the role of MCBs in the Italian banking sector is quite positive; MCBs are performing well and sustaining their targeting customers, namely SMEs also in the crisis period, even if this is associated with more risks and costs (see Table 8). They are still different. In this contest, the fact of being a member and not only an owner seems to have an impact.

The changes in banking regulation that took place in the last 15 years, the increasing competition in the industry brought about several transformation in the governance structure of the cooperative banks in Italy. The ownership structure, the democratic voting rules, and other features that are clearly consistent with a small cooperative structure are still ensuring an efficient management. However, they could not be the best tools when cooperative banks will grown till the point after which talking about a mutual cooperative bank is meaningless.

The challenging question is if it could be possible to find a threshold size, above which the cooperative elements of mutuality and information advantages became meaningless.

APPENDIX

Table 1 - Main asset sizes

(Thousand of Euros)

	MCBs		Banking Industry	
	value	annual var.% 2007-2008	value	annual var.% 2007-2008
Interbanks loans	8,342	19.5	692,526	9.2
Total loans	113,655	12.5	1,606,301	6.1
- short terms	39,792	12.6	564,833	4.3
- medium and long term	70,469	12.3	994,149	8.0
Securities	27,582	2.8	380,326	38.3
Interbank funding	1,736	-6.0	884,787	7.3
Deposits and bonds	130,833	10.4	1,535,962	13.0
-direct funding	59,561	3.8	71,305	3.8
-long term funding	71,271	16.5	822,912	17.0
in particular bonds	54,373	19.3	628,514	21.3
Assets and reserves	17,199	9.3	276,632	9.6

Source: Federcasse, www.federcasse.it (visited May 2010).

Table 2: Flows of total deposits for MCBs

(thousand of euros)

	Dic 2007	Dic 2008	Var. %	Flows	Flows` compositions
Current accounts and savings deposits	5,018,388	5,302,105	5.7	283,717	53.3
Certificate of deposits	368	275,861	-25.1	92,619	-17.4
Bonds	4,790,803	581,994	21.5	1,029,191	193.2
Other forms	612,712	644,815	5.2	32,103	6
DIRECT FUNDING	**10,790,383**	**12,042,775**	**11.6**	**1,252,392**	**235.1**
Gespa	617,895	407,490	-34.1	-210,405	-39.5
Mutual Funds	630,643	392,890	-37.7	-237,758	-44.6
Insurance products	155,917	133,834	-14.2	-22,083	-4.1
Asset management	**1,404,460**	**934,214**	**-33.5**	**-470,246**	**-88.3**
Assets under administration	2,696,641	2,447,141	-9.3	-249,500	-46.8
INDIRECT FUNDING	**4,101,101**	**3,381,355**	**-17.6**	**-719,746**	**-135.1**
TOTAL FUNDING	**14,891,484**	**15,424,130**	**3.6**	**532,646**	**100**

Source: Annual Report “Rapporto Cooperazione Trentina” 2008-2009

Table 3: Characteristics of the Total Funding

(Percentage)

	Dic 2007	Dic 2008
Direct/indirect funding	38.0%	28.1%
Asset managent/indirect funding	34.2%	27.6%

Source: Annual Report "Rapporto Cooperazione Trentina" 2008-2009

Table 4 - The cooperative firms in Italy through census data

(Units)

	Cooperative firms	Var. %	% on the total firms	Workers	Var. %
1951	10,782		0.7	137,885	
1961	12,229	13.4	0.6	192,008	39.3
1971	10,744	-12.1	0.5	207,477	8.1
1981	19,900	85.2	0.7	362,435	74.7
1991	35,646	79.1	1.1	584,322	61.2
2001	53,393	49.8	1.2	935,239	60.1

Source: Zamagni, 2006 on ISTAT data

Table 5: Workers in cooperative firms decomposed by industry

(Units)

	1971	1981	1991	2001
Fishing and Agriculture	32,660	33,795	27,948	36,917
Manufacture	44,213	90,335	112,762	85,815
Building	32,168	58,811	61,654	57,796
Trade	25,386	44,078	83,611	74,047
Other services	73,050	135,396	270,837	531,517
Social enterprises			27,510	149,147
Total	207,477	362,435	584,322	935,239
Annual variation %		74.69	61.22	60.06

Source: Zamagni, 2006 on ITAT data

Table 6 - Bank size, loan pricing and lending technology

(Units)

	Loan officers allowed to lower interest rate by more than 25 b.p.		Importance of "soft information"		Credit scoring crucial in lending decision	
	yes	no	yes	no	yes	no
Large and medium-sized banks	2	12	20	17	30	6
Small banks in banking groups	3	38	38	36	32	19
Stand-alone small banks	0	14	10	10	8	9
Cooperative banks	12	91	108	76	45	41
Total	17	155	176	139	115	75

The size classification given by the Bank of Italy defines small banks those which have a total assets of less than 7 billion Euros.
Soft information is given by a dummy variable that take value 1 when the usage of non-traceable information is defined “crucial” or “very important”.
Credit scoring is a variable with value 1 if the bank uses credit scoring and/or internal rating system for SME finance.
Source: Benvenuti et al., 2010:17

Table 7 - Bank size, delegation and loan officer turnover

(thousand of euros)

	Maximum amount of money Loan Officers are allowed to lend autonomously				Months Loan Officer stay in a branch			
	mean	p25	p50	p75	Mean	p25	p50	p75
Large and medium-sized banks	458	108	200	380	32	26	32	36
Small banks in banking groups	211	80	125	250	40	30	36	48
Stand-alone small banks	112	44	90	150	48	36	40	60
Cooperative banks	114	10	30	100	49	36	48	60
Total	176	18	71	150	45	33	38	60

The size classification given by the Bank of Italy defines small banks those which have a total assets of less than 7 billion euros.
Source: Benventuti et al., 2010:17

Table 8 – Market shares of Italian MCBs

(in percentage)

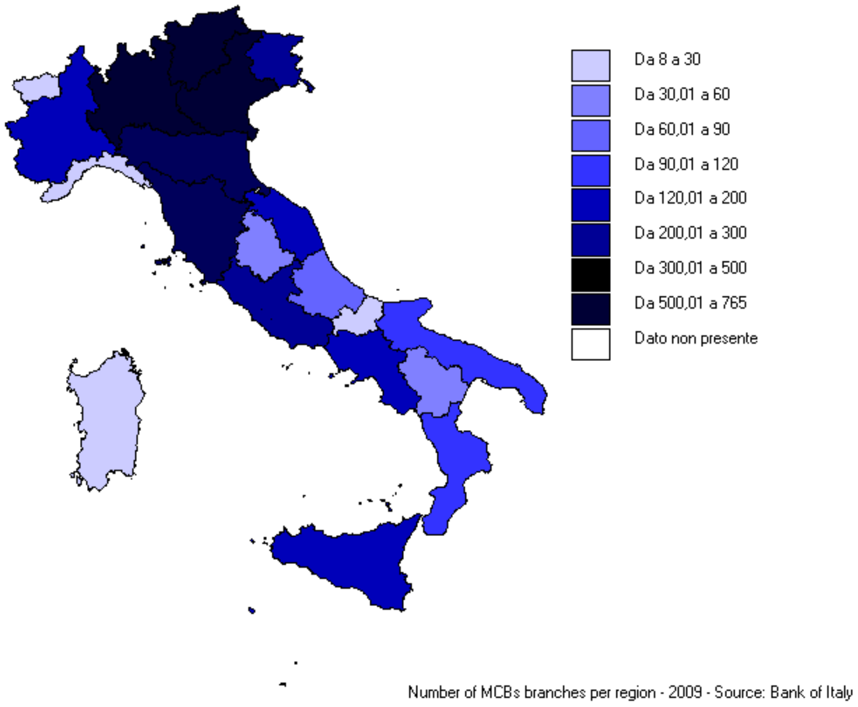
	2006	2007	2008		
Loans	6.6%	6.8%	8.0%		
				to artisans	21.6%
				to minor firms	16.1%
				to producing household	16.3%
				to consuming household	9.0%
				to NGOs	10.6%
				others	6.3%
Deposits	8.4%	8.5%	8.6%		

Source: Federcasse, www.federcasse.it (visited May 2010).

Figure 1 - Mergers and Acquisitions of MBCs after the Liberalisation

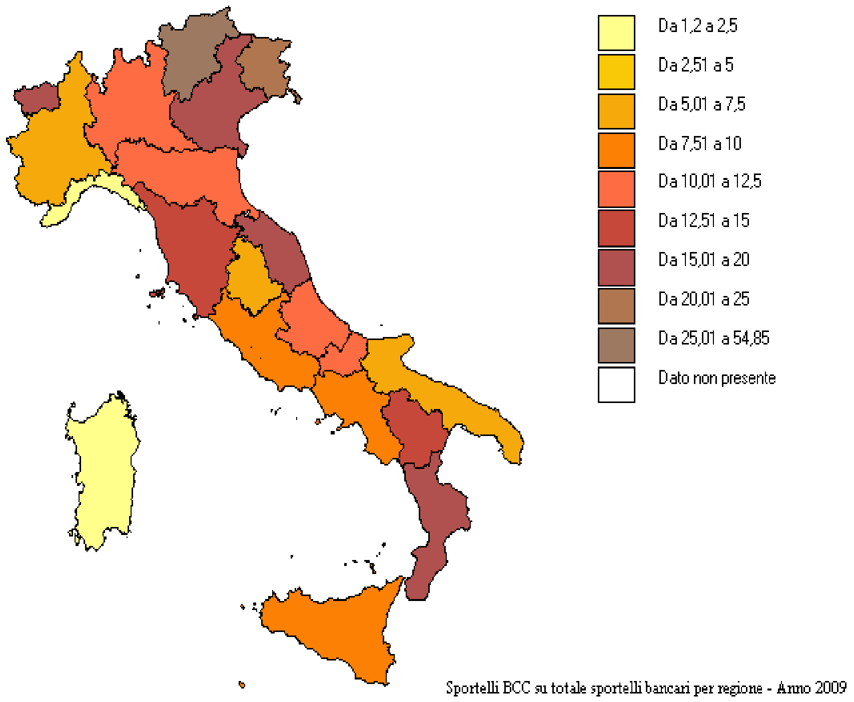
Source: Bank of Italy – Annual Reports

Figure 2 - Distribution of MCBs branches (2009)



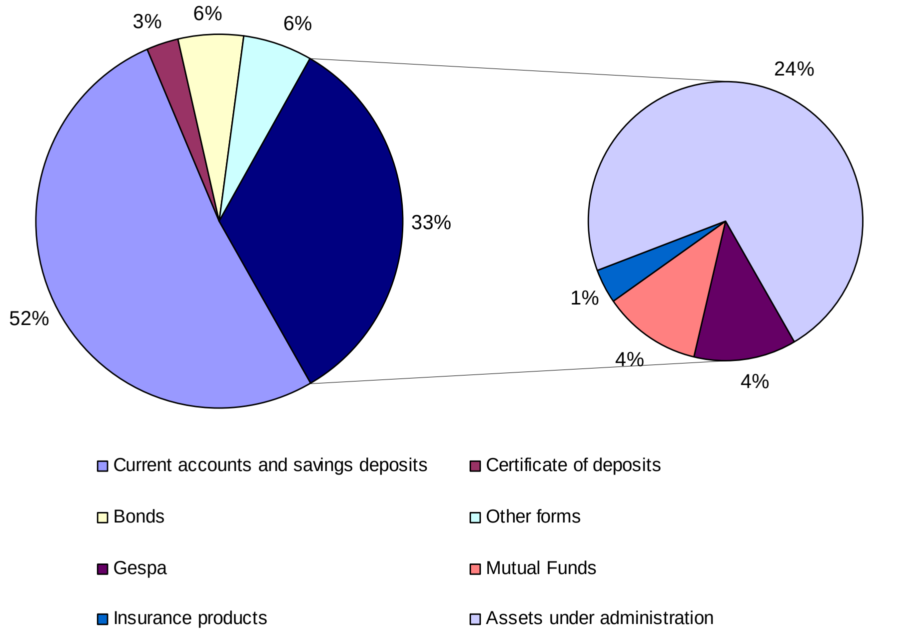
Source: Bank of Italy – on line statistics

Figure 3 - Density of MCBs branches per region (2009)



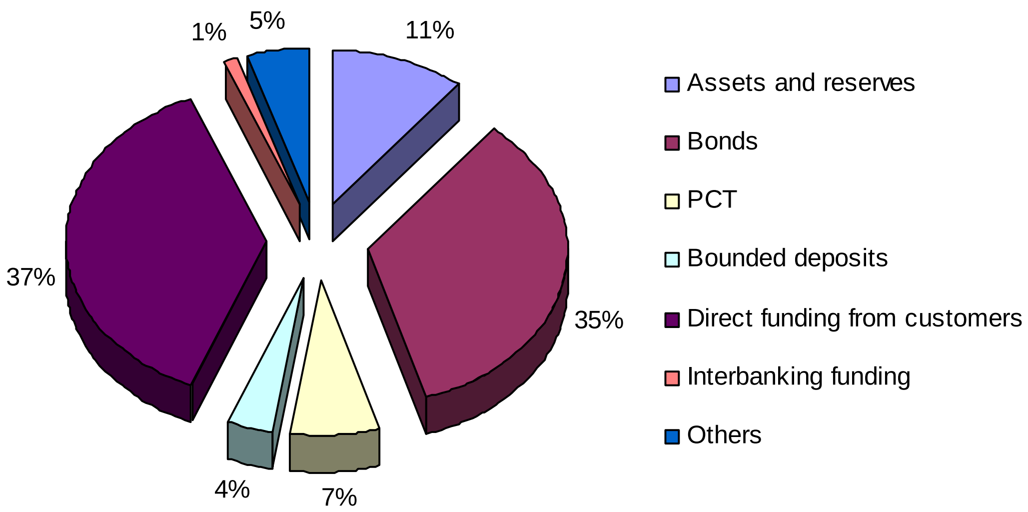
Source: Bank of Italy – on line statistics

Figure 4 - MCBs: Compositions of the Total Funding in December 2008



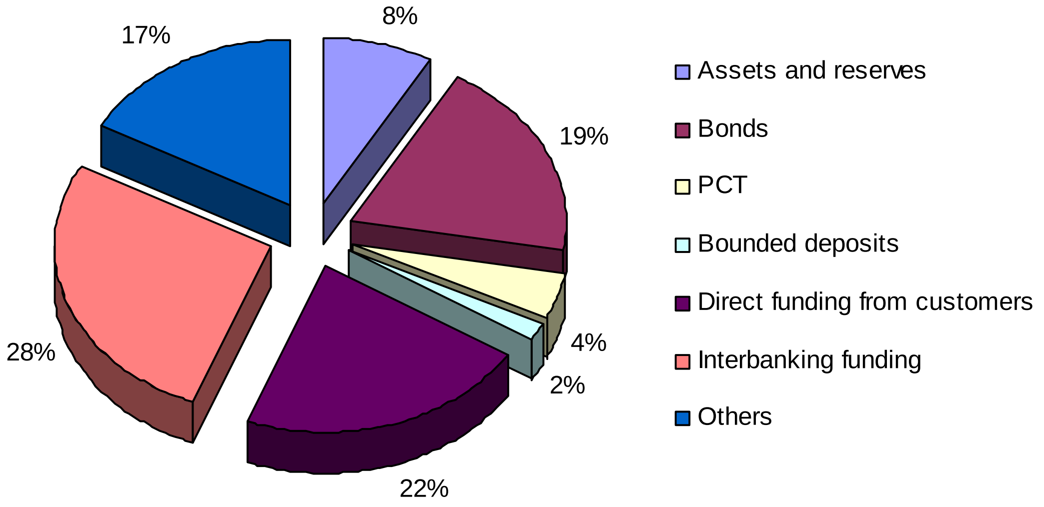
Source: Annual Report "Rapporto Cooperazione Trentina" 2008-2009

Figure 5 - MCBs: Composition of Liabilities in 2008



Source: Federcasse, www.federcasse.it (visited May 2010).

Figure 6 - Other banks: Composition of Liabilities in 2008



Source: Federcasse, www.federcasse.it (visited May 2010).

Figure 7 - MCBs Managerial Structure

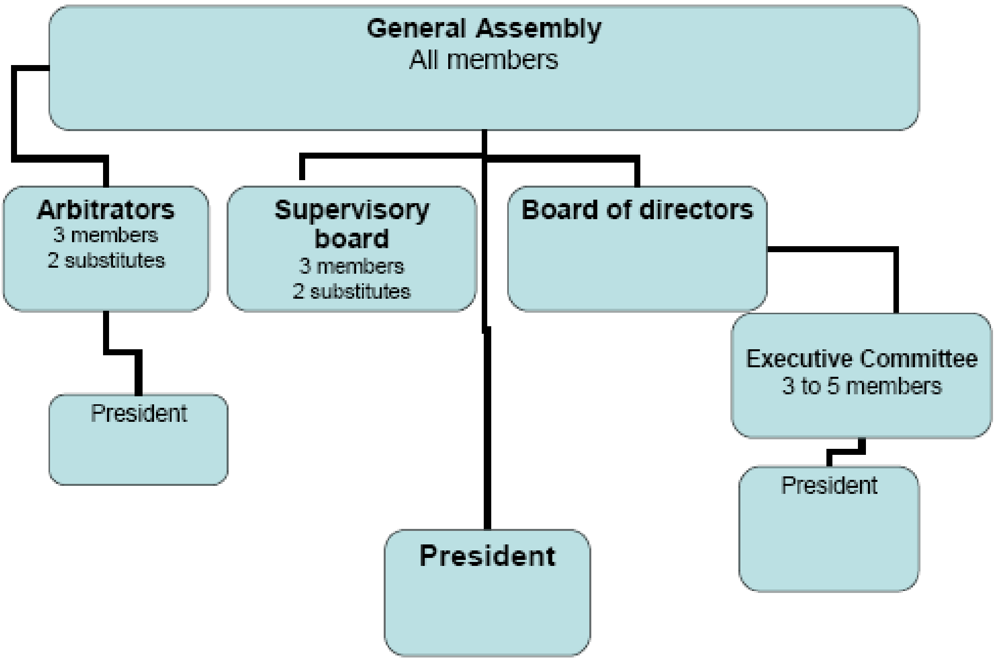
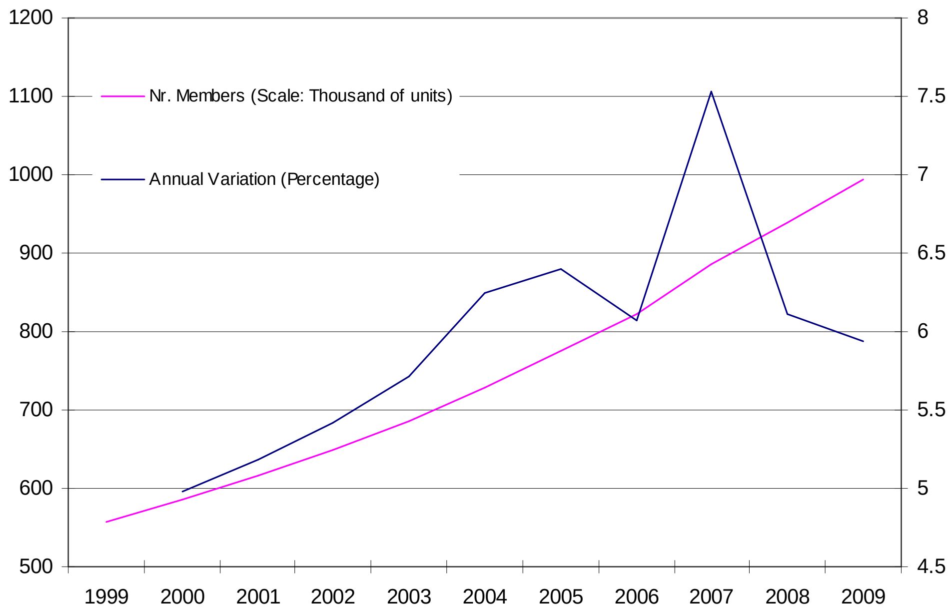


Figure 8 - Changes in MCBs Members quantity



Source: Federcasse – Annual Reports

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