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Trends in Polish Cooperative Banking Sector as Seen by Its Management*

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The paper raises the importance of identifying future challenges for the cooperative banks of Poland by their management. Recent studies indicate that the managers of cooperative banks are well aware of the need to adapting world trends pertaining to new computer systems which increase bank proficiency as well as client satisfaction. Studies indicate that even though cooperative banks have a local range of activity, they recognize the need to improve customer service. Furthermore, Polish cooperative banks tend to marginalize, to a certain degree, their status as a cooperative and instead advocate a more commercial image.

Keywords: cooperative bank, cooperative principles, growth factors

Introduction

The idea of cooperatives expands in certain countries and fades away in others; Poland's experience shows decrepitude and stagnation, and this condition must change. Either cooperative banks must advance or they will simply disappear. As of December, 2012, Poland had 572 functioning cooperative banks, of which 206 were associated with SGB Bank SA of Poznań, 365 with BPS SA of Warszawa, and one, Krakowski Bank Spółdzielczy, remained independent. The ratings of these cooperative banks and associated banks have improved of late and can be considered significant players in Polish banking. The import of these cooperative banks and their associates were reflected in 2012 financial indicators for the entire banking sector: 8.2% of own funds share, 8.6% assets share, 7.7% credit and loan share for the non-financial sector, 9.1% deposit share for the non-financial sector, 20% employment by cooperative banks, and 34.1% of all banking establishments. Furthermore, the client numbers for cooperative banks rose to over 10 million. Comparing financial performance of cooperative banks and commercial banks, it bears noting that their performance is competitive with regard to profitability of own funds and assets. In 2012, cooperative and commercial banks had 11.2% profitability of own funds and 1.2% profitability of assets. Differences, however, occurred in the C/I indicator

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where commercial banks showed a rising of 49.1%, and cooperative banks gained a level of 65.8%. This result was reached over the previous years due to a profile change of cooperative bank activities such as, but not limited to, changes in loan granting structures, offered products, marketing and approach regarding banking business (Kranias & Bourlessa, 2013, pp. 453-458).

The near future perspective for the cooperative bank sector includes many challenges reflected in social, market, and legal transformations which may impact on the status of cooperative banks in the Polish and European banking market (Kupczyk, 2013, pp. 307-321). Since cooperative banks have excellent familiarity of its customer base, they should concentrate on these aspects as their opportunity for expansion. Possible modifications for cooperative banks include introducing individualized service (Milost, 2013, pp. 509-520), better efficiency in servicing customers and changes allowing full exploitation of economic potential (Kang, X. Zhang, & Z. Zheng, 2009, pp. 22-36). The recent financial crisis exposed the consequences of growing globalization, of which one element is the growth and strength of relations and ties between various national banking systems. Banks undertaking international transactions incur additional risk at the global scale, which directly threatens the stability of the banking system, which in turn demands undertaking such activity that will increase the safety of the banking system and tone the competition within same (Parasuraman, Zeithaml, & Berry, 1991, pp. 430-450).

Poland's cooperative banks (co-op) must reckon with increasing expectations and pressure from their clientele and, at the same time, rising competition from commercial banks which have brazenly begun penetrating the market traditionally serviced by co-op banks. In order to come to terms with these challenges, co-op banks must concentrate on maintaining their principal enterprise and strengthen their market share while re-focusing their strategy from product(s) to client(s) (Snarski, 2012, pp. 92-93). In the Polish banking system, the co-op banking sector has been identified with servicing rural areas exclusively, a result of where the idea of "cooperative" originated. Currently there has been dynamic development and progress in this particular sector as seen in the expansion of co-op banks into large metropolitan areas which have been served primarily by the commercial sector (Griffin, 1997. p. 138). Co-op banks frequently responded to the rising expectations of their clientele. As a result, the market position and conditions for the co-op banking sector started to change which stimulated competitiveness from commercial banking. This, in turn, places more significance on testing customer satisfaction in terms of co-op banking expansion. Furthermore, cognizance of customer satisfaction enables development of an effective competitive advantage in the market of banking services and products. Banks exist for their clientele who then participates in creating the banks' present and future; indicating the important role of the customer—the confirmation of the banks' offer—in assessing the level of service quality (Stasiak-Betlejewska & Borkowski, 2010, p. 69). The appropriate understanding of quality "…does not depend on sophisticated technology or complicated banking procedures, but on adjusting the banking offer to the needs of the individual client". This type of behavior contributes to maintaining current clientele (as well as attracting new customers), and increasing their willingness to pay the charges for said products and services (Bloemer, de Ruyter, & Peeters, 1998, pp. 276-286). The important source of such an effect is the organization's employees and their role in effecting value, satisfaction, and consequently, customer loyalty. Urbanek (2004) writes about the strong ties among quality, satisfaction, and loyalty noting that the mentioned elements form a system and as such must be analyzed as a whole (Urbanek, 2004, p. 26). The influence of customer satisfaction and loyalty on a bank's financial performance is evident. The confirmation of this is the numerous benefits resulting from building a strong base of loyal and satisfied clients who are directly involved in a bank's profit growth; on the one hand, these satisfied and loyal customers invest more in the products and services of given bank because they are less sensitive to charge variability, among others, as confirmed by the research of Reichheld and Sasser (1990, pp. 9-10). On the other hand, these same clients contribute to reducing costs in several areas, such as lowered service costs, lowered costs of attracting new clients, lowered costs as a result of cross-selling, and lowered marketing costs. Futrell's (2004, p. 476) research indicated strong correlation between maintaining clients and their satisfaction and generated profits. Furthermore the same study showed that clientele loyalty is one of the more essential factors for long-term company success. Other research draws attention to the profits which loyal clients are a source of, such as profits from increased purchases, lowered operational costs, profits from referred customers and profits from raised prices (Kheng, Mahamad, & Ramayah, 2010, pp. 57-66).

It has been suggested that the quality of a service is decided by a matrix of five determinants, i.e., fixed assets representing the firm's credibility; reliability as seen as thoroughness of a given service; responsiveness as in a bank's will to help a client; assurance of a bank's knowledge; and empathy demonstrated by the service provider to its clientele. Therefore, generating competitive offers by co-op banks which deliver the greatest benefits to the customer guarantees sufficient levels of client satisfaction—an essential challenge in the current market conditions. Thus, the market leaders are those institutions which not only fulfill given expectations, but also anticipate future needs, i.e., the client, purchasing some service, not only feels satisfaction, but in many cases delight which then leads to long-term cooperation benefiting both parties—the customer and the financial institution, as is a bank. Client satisfaction becomes not only the key for a bank's success, but critical in the campaign for customers in the highly competitive banking sector at present.

Poland's cooperative banks belong to one of the oldest group activities essential to affect agricultural politics and local development. Presently many of the banks can boast of over 100 year presence, establishing a primary role in the Polish economy. The main suppliers and, at the same time, receivers of cooperative bank services are the non-financial sector, i.e., households, small and medium commercial enterprises, as well as local territorial budgets (Nowakowska-Krystman & Kublik, 2008, p. 34). In spite of the socio-economic directional changes (Hys & Hawrysz, 2013, pp. 27-33), cooperative banking remains closely tied to rural areas and actively participates in the process of change in agriculture. There is no doubt that the existence of cooperative banks in rural areas is an important institution for continued development of farm households, food processing plants, and other non-agrarian activity. As a result of long-term experience, tradition, and equity applied to the bank's profile, scaled operations and generated risks, cooperatives banks are relatively resistant to crises and do not encumber a threat to the stability of the financial banking sector (Kania, 2009, p. 173).

Research Objective and Methodology

The study expresses the opinions of cooperative bank management as to the direction of expansion for cooperative banks. Initially all 573 cooperative banks (as of December 31, 2013) were included within the parameters of the study; however, 133 banks responded representing 23% of the initial group.

The results of the study present cooperative bank management opinions at the end of 2013. The study was carried out utilizing a questionnaire which was sent electronically or traditionally. The questionnaire solicited answers to key questions, in the authors' opinions, pertaining to, among others:

- the influence of primary cooperative principles on the expansion of the cooperative bank sector;
- the application of competitive principles between cooperative banks in the local market;
- the appropriateness of retaining the niche profile by cooperative banks;

• the indication of essential tasks which should be executed by cooperative banks in the objective of expansion.

Those surveyed could choose only one answer for each question.

Study Results

The first question directed to cooperative bank management pertained to the relevance of classic cooperative principles in the expansion of cooperative banking. The results are shown in Table 1.

Table 1

Rating the Importance of Cooperative Principles on Future Cooperative Bank Expansion

Answer options	Very important	Important	Rather important	No opinion	Rather unimportant	Unimportant
Open membership	20.0%	64.0%	12.0%	0.0%	4.0%	0.0%
Democratic polity of co-op banks	68.0%	28.0%	4.0%	0.0%	0.0%	0.0%
Surplus dividends proportionally based on co-op turnover volume	8.0%	56.0%	16.0%	8.0%	4.0%	8.0%
Political and religious neutrality	20.0%	20.0%	4.0%	4.0%	36.0%	16.0%
Cash sales only	8.0%	0.0%	20.0%	4.0%	16.0%	52.0%
In addition to commercial activity offer educational services	0.0%	8.0%	28.0%	12.0%	48.0%	4.0%

The results show which cooperative principles are rated highly by bank management in reference to future cooperative banking expansion:

- Democratic polity—96%,
- Open membership—86%,
- Surplus dividends proportionally based on co-op turnover volume—64%.

Furthermore, the survey participants indicated that of the cooperative principles, those relate to cash sales and educational services in addition to commercial activity no longer have key significance. This may be a resultant of market evolution which has occurred in recent decades. Referring to those principles relating to political and religious neutrality, participants decidedly indicated low or practically no significance.

Interesting results were indicated from questions pertaining to competition between cooperative (co-op) banks. To the question whether co-op banks should to compete with each other, 72% indicated that they should not and 28% indicated that competition is to be endorsed. This point suggests differing opinions regarding competition between co-op banks.

There was lack of a unified attitude by management in the area of co-op bank retaining niche market activity, i.e., comprehensive financial services for agriculture, small and medium commercial interests, local governments and medium affluent clientele, in that 68% of the surveyed indicated that co-op bank profiles should continue to reflect this niche market whereas the remaining third questioned the need to continue said profile.

The survey then queried co-op bank management about qualifying the relevance of tasks before co-op banks in their process of expansion. The results are presented in Table 2.

It becomes apparent from the survey that the significant challenges before co-op banks are important:

- increasing commercial safety—100% of participants indicated this point as important;
- introducing new software solutions—96% of management indicated support;

- adopting new distribution networks—96% in favor;
- specialized training for co-op bank employees—96% in favor;
- introducing new tools for risk management in co-op banks—92% of participants recognized this challenge as important.

Over 36% of respondents indicated the desirability of increasing bank capital through membership marketing. This may be a result of the unique nature of cooperative banking where each member has only one vote regardless of how much stock they possess, where a number of co-op banks do not issue dividends which hinder raising bank capital through increasing membership. Management consequently sees a need to explore other sources for operating capital which is the basis of their operation.

Table 2

Classification of Challenges Before Co-op Banks Regarding Expansion as Seen by Management

Answer options	Very important	Important	Rather important	No opinion	Rather unimportant	Unimportant
Maximizing net profits	24.0%	24.0%	48.0%	0.0%	4.0%	0.0%
Raising income with new services as a result of diminishing service charges	16.%	68.0%	16.0%	0.0%	0.0%	0.0%
Need for systematic reduction of operating costs	20.0%	60.0%	16.0%	4.0%	0.0%	0.0%
Raising bank's capital through marketing membership	12.0%	36.0%	16.0%	0.0%	36.0%	0.0%
New methods of personnel administration e.g. motivational compensation for employees	32.0%	44.0%	24.0%	0.0%	0.0%	0.0%
Specialized training for employees	32.0%	64.0%	4.0%	0.0%	0.0%	0.0%
Increasing commercial safety	36.0%	64.0%	0.0%	0.0%	0.0%	0.0%
Introducing new software solutions	60.0%	36.0%	4.0%	0.0%	0.0%	0.0%
Introducing new tools for risk management in co-op banks	32.0%	60.0%	4.0%	4.0%	0.0%	0.0%
Adopting new distribution networks	48.0%	48.0%	0.0%	4.0%	0.0%	0.0%
Increasing marketing techniques into bank activity	8.0%	68.0%	24.0%	0.0%	0.0%	0.0%

Summary and Recommendations

Cooperative banks are faced with the need to accelerate expansion, safety and improving their market position. Bank management should also undertake efforts to deliver more efficient service to their clients.

The study presents the survey results pertaining to market share expansion by cooperative banks as seen by bank management. Because of the specific characteristics of how cooperative banks function, the laws and regulations for cooperatives and the principles of generating own capital by these banks are very important. Generally, own capital is the basis for the banks operation and development. The issue of establishing appropriate levels of capital is key for functioning and reaching effective financial returns.

Precepts of democratic polity and open membership have significant influence on the expansion of the cooperative banking sector. The essential tasks to enable dynamic market expansion, in the opinion of management, are improving commercial safety, introducing new software solutions, adopting new distribution networks, and specialized training for employees. These results illustrate how much weight is put on by co-op bank management for modernization in information technologies, risk management, and staff competence since each of these sections is essential in the process of a bank's expansion.

External factors which probably will have key future influence on the expansion of cooperative banking are development of electronic distribution networks and rising competition from commercial banks and lending institutions.

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