
Community banks in Australia: an innovative approach to social and economic wealth creation?

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Abstract: Community banks in Australia are a recent new phenomenon. Their ownership structure and operational model, however, suggest an innovative approach to social and economic wealth creation is different from that typical of community and cooperative banks elsewhere in the world. In this paper we explain and discuss distinctive features of these community banks and how their business model may be adapted elsewhere.

Keywords: community bank; cooperative bank; social capital; collaborative relationships; demand aggregation.

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1 Introduction

Community banks, introduced to Australia approximately five years ago under the auspices of the Bendigo Bank, are predicated on an innovative and entrepreneurial ownership, structural and operational framework that has been widely acknowledged by a diverse range of interests to be successful in serving to build the social capital and capacity, as well as the economic growth and development of communities in which they have been established. In this paper we explain this framework and what makes it unique. We also highlight and discuss distinguishing features of the framework that we submit are germane to developing a grounded theory appropriate to modelling, explaining and researching this framework and practice, and enabling its adaptation elsewhere.

The paper begins by explaining the genesis and nature of the Australian community bank concept, and highlighting some of its researched outcomes and impacts. We also compare and contrast this model with that of cooperative banks elsewhere. We then consider features of Australian community banks that not only distinguish them from cooperative banks but, have also contributed to their success. We conclude with an illustrative example of how this model may be adapted elsewhere – in other places and industries – and highlight where the innovativeness and appeal of this model lies.

2 Community banks in the Australian context

Genesis, nature and impacts. Within the past ten years Australia has experienced a wave of bank branch closures in a wide range of locations, deemed by the major banks to be of insufficient size and substance to warrant a branch presence, and the costs of maintaining this (Ralston and Beal, 2000) are avoidable. This experience is not unique to Australia (Denny, 1995; Sraeel, 1995), but more than one third of these closures have been in comparatively small country towns, many of which were left with no banking facility of any kind. This circumstance however, was perceived by a relatively small regional bank as a unique investment and marketing opportunity.

Located about an hour and a half north of Melbourne, in the state's second largest regional city, the Bendigo Bank (BB) had its origins during the Victorian gold rush of the mid-1850s when it was established as the Bendigo Permanent Land and Building Society (BPLBS). As a consequence of significant financial deregulation in Australia during the 1980s, the BPLBS became a fully-fledged bank in 1995 and now operates over 260 branches throughout Victoria and interstate, with outlets in each of the mainland state capitals. In addition, the BB jointly operates well over 100 community banks in partnership with local communities – in urban as well as rural and regional areas – that offer a wide range of financial services including mortgages and unsecured loans, investment products, insurances, trustee and foreign exchange services.

Community banks afford communities an opportunity to establish a bank to serve local needs in a way whereby members of the community served hold a direct shareholding interest in partnership with the BB. Establishing a community bank branch involves a locally based public company, limited by shares representing all or part of the local community, purchasing the right to operate a branch of BB. The community secures the premises, purchases fittings and systems, and meets branch running costs. BB provides the banking licence, the bank brand, product development, systems, acquisition of requisite service support, and supports the branch with operational requirements including marketing support, training, stationery, statements and administration. These community banks, however, are established for purposes that transcend the provision of financial services alone. These additional purposes are considered elsewhere in this paper but relate directly to contributing purposefully to the social capital of communities in which they reside.

Benefits flow to all stakeholders. Local communities gain branch banking services which are otherwise unavailable, an expanded capital base and income flow that can serve to stimulate and drive further economic growth, and support that enables communities to grow from within. Moreover, the confidence and capacity of communities to generate growth from within is enhanced. Investors gain access to potential dividends and the opportunity to leverage their holding in this initiative into

other growth and income producing investments. The aggregated market demand of the local community provides a basis on which to foster and support other business growth initiatives, and the BB gains access to, and support from, markets that might have otherwise been closed to them or not sufficiently large enough to justify independent investment. As well, many of these markets are competition free, and there is public goodwill and positive publicity to be gained. Thus the wealth created accrues to multiple stakeholder interests and takes multivariate forms. This is evidenced by the fact that the Australian community banking initiative has been acknowledged by all stakeholders to be highly effective in enhancing social capital and community capacity as well as contributing to commercial and economic growth. This has been confirmed by research which has shown that community banks have a positive and beneficial socio-economic impact on retained capital, spending and employment, the sense of community, and the confidence of a community to act in its own interest (Byrne et al., 2002).

As a consequence, new and additional community banks continue to be established, but no longer solely in outlying rural and regional communities. Community banks have now begun to be established no less successfully in heavily populated suburban areas surrounding major metropolitan centres including Sydney, Melbourne, Brisbane and Perth. This raises a thought-provoking question about what constitutes and defines a community, particularly within large urbanised areas. A further question relates to what potential there is or might be to draw upon this sense of community, and the business model provided by the community banks, for the purpose of fostering new enterprise growth in other industry sectors. This appears to be an opportunity that warrants further investigation.

The business model represented by these community banks appears to differ in several respects from more conventional banking models, operationally as well as structurally. In what follows we explain and discuss the distinguishing features of these community banks with the aim of not only illuminating their particular nature and uniqueness but also identifying factors crucial to their success, and providing grounds for development of theory.

3 Distinguishing features of Australian community banks

3.1 Ownership

The community bank framework may be likened to that of a cooperative and more particularly, cooperative banks that operate in different parts of Europe, India and elsewhere. It may also be likened, in some respects, to that of the relationship between a franchisor and franchisee. As will be shown in the discussion that follows however, the ownership structure and relationships, as well as the shared mission, values and objectives of these community banks and their stakeholders, are quite different to those typically characteristic of a cooperative and a franchise operation.

A cooperative can be defined as an autonomous organisation formed, owned and democratically controlled by a number of people or otherwise independent entities for whom or which the cooperative is formed to serve. In Australia, the most common examples are those provided by agricultural, transport, wholesale and retail, social and community service cooperatives. Credit unions and building societies are also examples of cooperative-like associations in which members deposit money for interest and from

which they also borrow money at interest. It may fairly be said that each of these models, including that provided by cooperative banks in Europe and other parts of the world, has correspondences with the Australian community bank framework, but they are not identical to it. They are alike inasmuch as all involve the economic participation of members, and membership is voluntary and open, but a fundamental difference lies in the composition of ownership. Cooperatives are owned and operated solely by their participating members; whereas ownership and control of Australian community banks is shared equally by commercial as well as private interests. In this way market needs and demand are aggregated, as in the cooperative model, but requisite resource needs are provided in large part by the sponsoring bank, thereby ensuring that each community bank has the necessary capacity to fulfil its purposes competitively. As a result, both commercial and private interests combine to bring to fruition, a mutually beneficial joint venture that might not otherwise be possible or feasible, and with resources sufficient to ensure its competitive viability.

Like cooperatives, the prospect of establishing a community bank in Australia has its genesis within the community in which it is intended to be instituted. This is to say that the initiative begins at the community level with individual members of that community, rather than by the BB or some other party external to the community. In this way the idea or prospect is 'owned' from its very inception, by those whose interests stand to be served by the community bank, if it is established. Unlike a cooperative however, the interests served by each community bank extend to the whole community and not solely to the initiating shareholding members. This is because each community bank is a community undertaking established not solely for purposes of commercial gain but rather, for other community development purposes as well. Furthermore, because Australian community banks unlike conventional commercial enterprises, are established as a partnership between commercial enterprise and community-based stakeholders, the resulting enterprise is not established independently of the community that it exists to serve but rather, as a joint venture with that community in and through which the respective needs, interests and aims of each party are recognised and accommodated. In this way the establishment of each community bank may also be characterised as uniquely entrepreneurial inasmuch as, unlike more conventional entrepreneurial activity, the prospect of establishing a community bank is motivated not by commercial interests but by community interests.

3.2 Purposes

Integral to the Australian community bank business philosophy is the notion of mutual wealth creation, shared meaning, shared values and reciprocity (Pervan and Johnson, 2003); concepts that have strong social connotations as well as strategic implications. As indicated above, community banks in Australia are established for purposes that transcend solely the provision of financial services to the benefits of members. Typically, cooperatives are established to serve the needs of their members, and the surplus revenues or profits generated by cooperatives are distributed to their members. By contrast, surplus revenue generated by each Australian community bank is distributed for the express purpose of enabling and supporting socio-economic growth and development within each community in which one of these banks resides. Thus, whereas cooperative banks, like community banks in North America, typically exist to meet the financial needs of the cooperative community, BB-sponsored

community banks in Australia are established not only to meet the financial needs of the communities served but, also, to support those communities in other diverse ways as well.

Social capital has emerged as a key concept in the re-engagement and revitalisation of community. Putnam (1993), who is credited with coining the term, defined social capital as the trust, norms and networks needed to facilitate cooperation. It is about the quality of relationships that enhance the capacity of people to collectively resolve problems (Stone and Hughes, 2002) and re-organise their assets into new outcomes for mutual benefit (Lochner et al., 1999). According to Stone and Hughes (2002), social capital can be understood as a 'resource to collective action' – enabling individuals' access to reciprocal, trusting connections that help the process of 'getting by or getting ahead'. In addition, improvements in the social capital of a community have been shown to improve prosperity and many other aspects of a community (Putnam and Feldstein, 2003; Knack and Keefer 1997). As a consequence, the concept of social capital, and the need to foster and support its development, resonates well with those seeking to integrate economic and social outcomes, and appears to be receiving growing attention by public sector policy-makers in terms of its potential to generate wealth and other outcomes for individuals, families, economies and active community democracies.

Community banks in Australia provide a mechanism through which social as well as economic development and wealth creation are actively pursued by the community. Social interests and the development of social capital are innate to the community banking paradigm. This means that the initiative serves to empower and build confidence and capacity within local communities. This, in conjunction with a willingness to respond to the economic and social needs of local communities, underpins the success of the community banking initiative. The inherent structural bonding and benefits instil confidence in communities to share in the expense and risk of community-based banking and, correspondingly, afford communities the opportunity to influence and shape development as it pertains to their respective suburbs, regions and/or towns of interest. This is achieved through the synergistic combination of the skills and resources of the partners, and their distinctive community orientation. Thus, each community bank not only creates value, but also builds capacity and confidence within communities and, in this way, creates social as well as economic wealth. Thus, the potential beneficiaries extend more widely than the membership of a conventional and typical cooperative.

Research to which we referred earlier in this paper (Byrne et al., 2002) has confirmed that community banks have had a significant positive impact on both the social capital and capacity for economic growth and development of local communities in which they have been established. Spending and purchasing have been retained in local areas, the capacity of local business has been improved, as have levels of local employment, and incremental new enterprise development has been encouraged and enabled. As a consequence, the capacity and capital necessary for regional innovation and development deemed to be important to the nation's social and economic fabric, have been substantially improved.

3.3 Operational characteristics

A key element in the success of Australian community banks has been their ability to effectively integrate and manage a variety of collaborative relationships among diverse stakeholders, and to secure the commitment and trust of participating partners and

markets served. These include among others, the BB as the sponsoring institution, contributing shareholders, the local community being served, and management and staff of the respective entities. Integral to this is the ability to successfully establish and manage relationships between all of the stakeholder interests represented in the enterprise. These relationships and their effective management appear to be a key factor in how the community banks operate. The ownership and organisational structure of community banks provides a framework and formal bond that underpins and serves to facilitate the former in a manner atypical of more conventional business organisations. Correspondingly, the bonds created with the communities served also to link the enterprise with customer markets in an uncommon and distinguishing way. Therefore these relationships and how they are nurtured and maintained, are central to the constitution and operation of community banks.

As articulated by LaBerge and Svendsen (2000), successful collaborative frameworks are dependent upon a defining foundation of core values and mutual trust, organisational alignment and a mutual external/internal stakeholder strategy, supported by regular evaluation and an ongoing commitment to the needs and interests of the partners. The effective management and ongoing maintenance of successful relationships is correspondingly dependent upon a number of factors. These include having an effective framework in place to facilitate the relationship, developing and maintaining ongoing dialogue, creating reciprocal value, rewarding commitment, and ensuring sustainability (Brierly, 1994). It can be fairly said that the nature and form of each community bank satisfies each of these factors. By way of illustration, consider the following. The structure of each community bank affords the requisite framework. Correspondingly, instituting a community bank establishes a number of relationships – between the BB and other community shareholders in the enterprise, between stakeholders and staff, and between the community bank and the market(s) it is established to serve. Dialogue is achieved through the interaction of the local community, the community bank, and the BB as the sponsoring institution. Value is cocreated and shared amongst all participants and provides a mechanism for rewarding commitment. The local community is rewarded through its ability to access banking services previously unavailable, an expanded capital base and income flow that serve to stimulate economic growth, and support for other community building initiatives. Contributing shareholders of the community bank are rewarded in the form of dividends, and the BB is rewarded in the form of profits and access to markets.

Trust is generally acknowledged as being essential to successful relationships (Knack and Keefer, 1997; Dwyer et al., 1987; Moorman et al., 1993; Morgan and Hunt, 1994), and has been defined as “customer confidence in the quality of products/services offered” (Garbarino and Johnson, 1999, p.71). As a corollary, this can be extended to trust in the organisation producing these products and services. Correspondingly, commitment has been defined as ‘an enduring desire to maintain a valued relationship’ (Moorman et al., 1992, p.316). This implies the commitment of both the customer and the organisation, and a relationship that is deemed by both parties to be mutually valuable. Furthermore, Gundlach et al. (1995) have argued that commitment is made up of three main components: an instrumental component, an attitudinal component and a temporal component. The first implies investment and therefore some form of physical attachment, the second implies emotional attachment, and the third implies durability. Conjoint relationships in which trust and commitment are inherent elements, hold the potential for mutual value to be created, and encourage loyalty

(Sirdeshmukh et al., 2002; Reicheld and Scheffer, 2000). Organisations that work with customers to define, design, cocreate and deliver value not only stand to contribute positively to their own bottom line performance, but also give the customer what they want, and thereby foster loyalty by virtue of a 'connect and collaborate' strategy.

Both trust and commitment are exemplified within the Australian community bank paradigm through an inherent willingness of all partners to recognise and accommodate their respective and mutual needs, interests and aims including, significantly, those of customers and the local community being served, and through the enduring instrumental and attitudinal attachments of the partners. In other words, the success of these community banks depends, to some extent, on mutual commitment and mutual trust, highlighted by Knack and Keefer (1997) as crucial to the stimulation of innovation, and the accumulation of financial, physical and human capital. Furthermore, value is both cocreated and equally shared. Community banks in the Australian context are community focussed enterprises that foster social, economic, commercial and community oriented value of potential benefit to a wide range of stakeholder interests. Thus, value in this context has a multi-faceted meaning and multiple beneficiaries. This value is also cocreated by all participants and stakeholder interests to mutual benefit, and is contained in a form wherein the commitment and loyalty of participants is structurally assured.

The operational performance and success of these community banks also appears to be related to their approach to customer relationship, marketing and management, and collaborative marketing. Conceptually, customer relationship management is predicated on the assumption that relational stakeholders are distinct and independent entities. By contrast, the partnership forged through the formation of a BB-sponsored community bank is not independent of the community and customers that it serves. Rather, it is a joint venture in which the community has multiple interests – social and emotional as well as economic and financial. Furthermore, the commercial, social and community exchanges that underpin the resulting enterprise highlight the interdependent nature of the community banking concept. As a consequence, the marketable services of each community bank are not so much marketed *to*, as they are in collaboration *with*, the community served. Effective marketing of a community bank must also accommodate, reflect and respond to the social, cultural and capacity building needs and aspirations of communities in which they exist, in addition to the particular needs and requirements of the customers served. That this has happened is attested to not only by the customer support for community banks but also by the wider community support that they appear to have engendered.

We believe that this, and the resulting effect on relationships between all the stakeholders, is potentially significant in several respects.

- It means that the concept and potential enterprise has committed, albeit initially limited, community support from its genesis as an idea and possibility.
- This support, which typically grows as more community members become aware of the prospect and what it offers, has two vital consequences: committed and shared 'ownership' of the enterprise, and an aggregation of market demand for the services offered and provided by the enterprise. Ownership in this sense implies psychological and emotional, as well as financial, dimensions, and extends not simply to the immediate shareholding interests but to the wider community. In addition, the aggregation of demand provides a potentially powerful assurance of commercial viability for the enterprise.

- The characterisation of market is transformed from that of passive and potentially, though not necessarily, responsive, to one that might be more appropriately described as proactive and entrepreneurial; from being simply the targeted recipients of commercial enterprise, to being creators and joint owners of enterprise. We argue that these factors serve to characterise community banks in a way that not only distinguishes them from other banks and commercial enterprises, but also empowers them and provides them with a powerful commercial advantage.

3.4 Performance measures

As shown in the preceding discussion, the measurable outputs and impacts of Australian community banks can be defined in more than just financial and economic terms. This is to say that analysis and assessment of the performance of community banks must take into account their social, cultural and economic impact on the communities served, and how this is achieved, as well as their financial performance, viability and return on investment, and how these outcomes are achieved. Clearly the business performance of community banks, like any commercial enterprise, must be assessed in financial terms. Thus financial viability and return on investment represent measurable indicators of the financial health and success of a community bank. As well, however, their broader economic and social impacts must also be taken into account as performance measures, mindful that a common aim of these community banks is to ensure a contribution to the communities of which they are a part, that goes substantially beyond simply banking and that serves to foster the development and growth of community confidence and capacity.

4 The potential for adaptation

While acknowledging that more remains to be understood of the business operational model and practices of Australian community banks, the example they provide would appear to suggest potential for adaptation elsewhere. In our view the appeal of this is given substance by at least three considerations: the ownership structure, the purposes and operational characteristics exemplified by these community banks.

4.1 Ownership structure

The example provided by the Australian community bank experience shows clearly, and persuasively, that it is possible for new enterprise development to be undertaken by partners of a very different nature and size to each other, yet in ways whereby the respective interests and needs of each are served to mutual satisfaction. It also demonstrates the benefits to be gained from ownership that is defined and structured in a uniquely inclusive way. In this way, socio-economic wealth as distinct from solely economic or financial wealth, is created for all partners rather than only the business enterprise, its shareholders and other immediate beneficiaries, as well as for the wider community that is served by the enterprise. This experience raises a question as to the potential for replication elsewhere in other markets, industries or industry sectors. An example will serve to illustrate this.

Consider the case of a regional area or town in which all commercial paint is outsourced – that is, purchased from one or more trade wholesalers outside the immediate area because none are located within the immediate area of interest. In addition, the area contains no paint manufacturing or processing plant. Wholesaling and manufacturing organisations that serve the needs of the area may or may not be interested in the possibility of establishing a localised operation depending on their assessment of the commercial viability of this, and the anticipated returns, in relationship to the assessed investment cost and risk. Viability and return on investment will hinge, *inter alia*, on the size and spending power of the market to be served, and the extent to which local patronage can be successfully generated and retained. This would need to be assessed but, in any event, is uncertain. Should any one of them decide to proceed, they face the prospect of shouldering this investment cost and risk on their own, with no certain assurance of market support. Correspondingly, if they decide not to proceed, the area must continue to fulfil its needs for paint as an independent buyer and consumer, with the associated disadvantages of doing so. However, the model provided by community banks shows that these combined uncertainties, risks and disadvantages may be substantially diminished in a joint venture relationship whereby buyer and seller become coinvestors, and market demand is aggregated. This we believe is crucial to the success and adaptive potential of the community bank model.

Traditional business models imply buyer-seller independence. Of course exceptions, to a degree, exist and are exemplified, for example, in corporations constituted of multiple SBUs, some alliances and joint ventures, vertically integrated marketing systems, and the structure of some institutions such as savings and loan associations. These however, are the exception rather than the rule and, with the exception of situations whereby buyer and seller are united by common corporate ownership, the buyer-seller relationship in these models is contractual or by mutual agreement, rather than bound in the same way as it is in the community bank model, with the resulting market commitment and support. Furthermore, the shared ownership, market commitment and support combine to aggregate market demand and purchasing in a unique way.

Continuing with the example above, there would appear to be corresponding potential to aggregate market demand in such a way that could be beneficial to buyer and seller alike. Arguably, this could be achieved potentially by uniting the presently independent purchasers and consumers as coinvestors and shareholders in an enterprise that was jointly established, in partnership with a major wholesaler and/or manufacturer, to serve their needs. In this way the investment and business risks would be diminished as well as shared, the otherwise independent seller would participate in a joint venture with partners whose interests in the enterprise represent known and committed demand, the otherwise independent buyers would stand to benefit financially, *inter alia*, from the economies of scale that could be derived from their aggregated relationship, and the viability and commercial success of the resulting joint venture would be more likely assured.

4.2 Purposes

The exemplar provided by Australian community banks illustrates how business goals and imperatives may be effectively combined with broader socio-economic aims and objectives, the fulfilment of which stand to benefit, the shareholders or ownership interests of the enterprise more than the immediate investors. Knack and Keefer (1997) make clear the links between strong social networks, trust, reciprocity, and efficient,

innovative, resource rich economies. The growing literature on *Good Corporate Citizenship* is building a strong case for a changing relationship between business and community or indeed, business *in* community as the basis for sustainable business development. While it is widely understood that current business practices underpin the way communities will address social and environmental imperatives of the future, not all businesses see the need to engage with community, let alone see community as a source of business development. Nonetheless, according to Zadek (2001), there is a revolution going on where business has to take greater account of its social and environmental footprints. This revolution is being driven, not by a 'road to Damascus' revelation, but by recognition of the corporation's ability to build a sense of shared values with key stakeholders. 'Corporations that achieve this will extract the maximum premium for the branded, lifestyle products, get the best employees on terms that secure their committed labour to the business, and most effectively offset criticism from increasingly globalised networks of non-governmental organisations' (Zadek, 2001, p.8). The challenge in creating 'sustainable businesses' lies in our understanding of the links between social, environmental and economic gains and losses with triple bottom line performance measures providing the focus for much of this discussion. This approach, however, often reflects a perspective where environmental and social aspects are a cost which must be offset by even greater economic gains – rather than as an integral part of the business enterprise. The challenge of measuring performance is one thing. The challenge of integrating community (and environmental) interests into the business structure is another.

The Australian community bank approach to fostering social as well as economic development and wealth creation provides clear evidence of business practice that can meet the latter challenge in ways that are mutually beneficial. Their practice and purposes provide a frame of reference useful to fulfilling its adaptive potential.

Returning to our case example, business purposes that are defined more comprehensively in a manner akin to that by Australian community banks afford a means by which the benefits to be gained from market demand aggregation may be extended. It is reasonable to expect, for example, that commitment of the enterprise to supporting social and other needs of the community would serve to foster community support for the enterprise. As well, the aggregated demand initially created by industrial buyers and users who combine to become joint shareholders in the proposed enterprise could be increased by offering participation to other community members.

4.3 *Operational characteristics*

The practice observable in the successful operations of Australian community banks discussed above provides an exemplar of collaboration and relationship management, infused with mutual trust and commitment, to which arguably, many organisations aspire. As explained earlier, many of these collaborative relationships are formed at and during the time when a prospective community bank is initially discussed and planned. Other extant relationships within a community precede this process but may support and enhance it. All, however, are given enduring support and sustenance by the ownership and operational framework of community banks, by their purposes and commitment to serving wider community needs. Correspondingly, the purposes and community commitment of community banks underpin their relationships with customers, and the commitment of customers to these banks. This has the effect of providing the community

banks with enhanced customer loyalty. Adapting this model to other industries and contexts offers an opportunity to secure comparable market and customer support, commitment and loyalty.

5 Concluding comments

We acknowledge that the foregoing discussion and example, the practicability of which remains to be tested, is based on a number of assumptions and hypotheses. It does serve nonetheless to illustrate something of the potential that would appear to exist in considering opportunities for adapting the Australian community bank model in other contexts.

In our view the innovativeness and appeal of this business model lies in at least three main respects. First, the ownership structure demonstrates the potential that resides in partners of a different size and nature, and with different interests and needs, forming a commercial association with the power to be mutually beneficial. As well, partnering in this way offers an opportunity to bring to fruition, enterprise development that might not otherwise be practicable, and in ways whereby mutual interests and needs may be accommodated and fulfilled. Second, the experience of community banks in Australia shows how commercial purposes, aims and objectives may be effectively fulfilled in an enterprise model whereby social and community interests and needs are correspondingly accommodated and supported. One of the consequences of this is community or market commitment to, and support for, the enterprise atypical of more conventional business enterprises that are established more independently of markets that they exist to serve. Third, the ownership structure and purposes of Australian community banks combine to foster collaborative relationships of a type and quality that, as we have argued above, create a potentially powerful marketing advantage. For these reasons we believe that opportunities to adapt the business model provided by Australian community banks warrant further consideration.

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