

The Competitive Advantages of Co-operatives

Briscoe, R. & M. Ward.
2000

Centre for Co-operative Studies

National University of Ireland, Cork.

Preface

This book (and its companion volume *The Co-operatives of Ireland*) were inspired by a collection of seven, innovative booklets published by FVECTA, the Valencian Federation of Worker Co-operatives. Their set of booklets was called *The Seven Bases of Co-operation* and outlined the ideas, values and strategies that had made worker-owned co-operatives a powerful force throughout Valencia. The *Seven Bases* argued that *co-operative principles* were at the root of the business success of worker co-ops in Valencia and the booklets are now being used as the basis of training seminars to further enhance co-operative competitiveness.

This present book and its companion volume attempt to do for Ireland what the Seven Bases did for Valencia. They set out to understand the competitive advantages of co-operatives in general and co-ops in Ireland in particular. But because worker-owned co-ops are in their infancy in this country, our books will explore the values and strategies of *all* of the main co-operative sectors in Ireland – not just worker co-ops. As well as worker co-ops we shall also be looking at credit unions, agricultural co-ops, community co-operatives and other social enterprises.

These books fill major gaps in the literature on Irish co-operatives. *The Competitive Advantages of Co-operatives* provides the interested general reader with an introduction to the concept of the co-operative, its relevance in the age of globalisation and its many applications. It also outlines, with examples, the key competitive advantages of co-operatives in general and discusses some of the special management issues faced by co-ops. *The Co-operatives of Ireland* will focus in on the Irish situation, exploring the issues confronting the main co-operative sectors in Ireland. Particular emphasis is given to credit unions, agricultural co-ops, worker co-ops, community co-ops and newly emerging enterprises in the Social Economy.

These publications have been made possible by funding from the Septimus Programme of the EU.

Chapter 1

Introducing co-operatives

The quiet organisation

This is a book about Co-operatives, an innovative organisational form, which prospers in every continent but is often poorly understood by the general public. It often happens that the very people who are being helped by a co-operative don't even realise that they are dealing with one. Over two million people in Ireland are members of credit unions, but it is likely that a good number of those members do not realise that their credit union is a co-operative and that they are part owners of their own community banking system.

Typically, co-ops don't make a big song and dance about being co-operatives. They tend to work away quietly providing services to their members. And, even though they *do* network nationally and internationally, they tend to work together with like-minded organisations, which also go about their work efficiently but quietly.

One of the aims of this book is to make people more aware of the significance of co-operatives and the key roles they are playing in the lives of so many people. Another key objective is to underline the competitive advantages of the co-operative way of doing business, and to suggest ways in which co-operatives can build on their competitive edge.

1.1 Why study co-operatives?

To date, the co-operative way of working has proven itself in a bewildering range of applications world-wide. Some 725 million people are members of the co-operatives that are affiliated to the International Co-operative Alliance, a sizeable proportion of the world's 6 billion population.

In Ireland alone, the co-operative way of working has given Irish farmers greater control over food processing and the purchase of inputs, freeing them from the clutches of the rural gombeen men

who emerged in the second half of the Nineteenth Century. The Irish credit unions, inspired by Nora Herlihy in the late 1950s, grew in a mere thirty years into a flourishing nation-wide network embracing 2.1million Irish people in their own community-based banking system. A new generation of Irish worker-owned co-operatives is demonstrating that the worker co-operative is a highly efficient business structure for building strong indigenous business rooted in the communities of Ireland.

And co-operatives continue to grow.

- In the United States, farmer co-ops achieved their highest ever market share in 1998, marketing one third of the nation's farm commodities. In the same year in Ireland, the Irish Co-operative Organisation Society (ICOS) registered 43 new rural co-operatives.
- In Spain, the Mondragon network of worker co-operatives reached new heights in 1999 when its work force reached its highest level ever of 46,861, and profitability increased by 11%.

While some of the more established co-operatives fade in significance, new waves of co-operatives are taking their place, addressing new needs in new kinds of ways: -

- the social economy co-operatives which are mushrooming throughout Europe as a rapidly growing Third Sector of the economy;
- the multi-stakeholder co-operatives (owned jointly by workers and consumers) which dominate food retailing in Spain;
- CSA (community supported agriculture), co-operative partnerships establishing direct links between farmers and consumers to the benefit of all, first developed in Switzerland and Japan and now growing rapidly in the USA and Canada,
- the New Generation agricultural co-operatives which are multiplying the earnings of farmers throughout the American Mid-West and reversing trends in rural population decline and loss of rural jobs;
- the new dairy farmer co-operatives in Wisconsin which, against all the odds, are re-building the viability of the family farm through new applications of the *meitheal*¹ approach.

¹ This refers to the informal co-operation between neighbours, which historically was an important feature of Irish rural life. The *meitheal* was the word used for "the group drawn from the community for the co-operative effort." (Culloty 1990, p. 56)

There are a number of important reasons why co-operatives are receiving increased attention:

Bio-diversity is an important concept not just in the world of living organisms but also in the world of organisations. In a world increasingly dominated by footloose transnational corporations, co-operatives keep organisational alternatives alive, providing a local counterbalance to foreign-owned transnational business. They are invaluable organisational tools for enabling communities to build unique solutions to their own special problems, as well as making it possible for local businesses to participate creatively in the global economy.

When it comes to enhancing the quality of life, co-operatives have a number of key competitive advantages over other types of organisation.

- The different varieties of co-operatives (producer, consumer, worker, and community – see Chapter 2 of this book) empower groups of stakeholders often marginalised by conventional big business.
- They help build *social capital* and a vigorous community life, by developing opportunities for significant decision-making and effective action at the local level.
- They provide opportunities for *mutual aid* and *cost-effective service provision* tailored precisely to people's needs.
- They encourage *local and individual self-reliance* and thereby offer significant alternatives to globalised, investor-driven businesses.
- They lead to the self-conscious *redesigning of organisations around users' needs*.
- They have a *positive impact on the environment*, by placing less emphasis on strategies such as short-term profit maximisation. They encourage *sustainable development* by helping communities build a better life from their own local resources.
- Co-operatives have often proved to be extremely efficient and cost-effective in circumstances where other forms of business find it hard to survive.

1.2 Outline of this book

One of the reasons co-ops have not always reached their full potential is that people tend to have a very narrow view of the kinds of tasks co-ops can perform. Chapter 2, *The variety of co-operatives*, starts by giving a working definition of the *Co-operative* and then explores the extraordinary range of businesses that are operated as co-ops in different parts of the world. The chapter concludes by considering why people often prefer to set up co-operatives in preference to conventional businesses.

Chapter 3, *What co-ops have in common*, attempts to further clarify our understanding of the co-operative concept by asking what all of the businesses reviewed in Chapter 2 have in common. As a partial answer to this question, the chapter looks at those operating principles, which are generally accepted by co-operatives around the world, and are the basis of co-operative legislation. These principles are then contrasted with the way conventional businesses are operated.

Chapter 4, *The co-operative process*, looks at the co-operative difference from another perspective. It identifies two different ways of running the world, the US approach and the THEM approach, and uses these ideas to explain the distinctiveness of the co-operative way of making things happen.

Chapter 5, *Competitive advantage or handicap*, explores the competitive advantages of the co-op process and the co-operative principles discussed in Chapters 3 and 4.

Chapter 6, *Management in a co-operative setting*, reviews the possible problems involved in managing co-operatives, and explains how successful co-ops have been able to manage them effectively. The Chapter concludes with the example of the highly successful co-operatives of Mondragon in Spain and shows how they have resolved the so-called dilemmas of co-operative management.

Chapter 2

The variety of co-operatives

A working definition

Let's start with a simple working definition of a Co-operative.

A Co-operative is a self-help business owned and democratically controlled by the people who use its services.

This definition is over-simplified but it does focus on a number of the key features of the co-operative approach to getting things done.

a) Self-help

First of all, a Co-op is a *self-help* organisation, owned and controlled by the people who use its services. It has been set up for the purpose of helping its members address their own needs and problems

b) Designed to serve users

Unlike a conventional company, which is owned by a group of investors (who may never use the company's services and may even live on the other side of the world), a co-op's owners are intimately involved in the activities of the co-op. *They are the people who use the co-op's services on a day to day basis.*

- Thus a **housing co-op** is owned and democratically controlled by the people who live in the houses and flats, not by some absentee landlord.
- A **fishery co-op** is owned by the people who catch the fish, not by the owners of the fish processing company.
- A **dairy co-op** is owned by the farmers who produce the milk.
- A **credit union** is owned by its customers, the people who save money in the credit union and who borrow from it.
- An **electricity supply co-op** is owned by the people who use the electricity.
- A **child care co-op** is owned and democratically controlled by the parents of the children and/or by the care workers providing the services.

c) Democratically controlled

Another important feature of co-ops is that they are *democratically controlled*, one person one vote. Things are done very differently in the typical business where votes are allocated according to the number of shares you own, making it possible for one wealthy shareholder to out-vote all the rest.

Clearly co-ops are unusual businesses and they tend to arouse strong feelings, both positive and negative. Consider your own feelings about co-ops. For you, the word *Co-operative* may have pleasant connotations, to do with people taking charge of their own lives, and democratically controlling the organisations which meet their needs. Or perhaps you have negative images of inefficiency, conflict, and misplaced idealism?

Also, the word *Co-op* might summon up images for you of one particular kind of business. If you have grown up in Ireland, the word *Co-op* is most likely to mean a dairy, though urban people may think first of credit unions, or housing co-ops. If you are an artist you might think of a co-op as an agency through which you can sell your work and buy the materials you need. If you run a bed and breakfast business, your co-op might be a tourism co-op, helping market your locality to tourists. If you had grown up in a different part of the world, you might have had a very different image of *the Co-op*.

- If you had grown up in Britain, the Co-op would most likely be a retail store.
- If you had grown up on the prairies of Canada, you would probably think of a co-operative as a business which runs grain elevators and markets the produce of wheat farmers.
- If you lived in a rural village on the outskirts of Bombay, a co-operative for you might be the firm that buys and sells the milk from the family's buffalo.
- If you lived in the Basque region of Spain a co-op for you would probably be a technologically-sophisticated factory, manufacturing and exporting appliances.
- If you lived in the island countries of the Pacific, your co-op would be a small village store where you can buy basic supplies and also earn a little cash by selling the copra you had cut.

- If your home were Seattle on the West Coast of the USA, a co-op for you would more likely be a network of hospitals and clinics owned and controlled by their patients.

Not surprisingly our image of a co-op is shaped and limited by our own experience. One of the reasons co-ops have not reached their full potential is that people tend to have a very narrow view of the kinds of tasks co-ops can perform. Depending on where they live, they will see a co-op as just a *creamery* or a just *retail store*, and be totally unaware of other possibilities.

Co-ops can in fact be adapted to many different kinds of purpose. But they can succeed only if the people involved choose the type of co-operative business that is suitable for meeting their urgent needs. So let us begin our exploration of the co-operative by expanding our ideas about co-operative possibilities and examining the different types of co-operative available to us.

We have seen that a co-op is owned and democratically controlled by the people who **use** its services. **So, let's try classifying co-ops into categories according to how they are used by their owners.**

2.1 Types of co-operative business

1. CONSUMER CO-OPS

(Co-ops owned and controlled by their customers.)

One of the first successful co-ops to be developed was the Rochdale Equitable Pioneers Society, a consumer co-operative which opened its doors in 1844 in the English town of Rochdale. It started out as a small retail foodstore owned by its customers (the people who **consume** the products and services of the business).

There are many other kinds of co-operatives owned and controlled by consumers. The most successful example of this kind of co-op in Ireland is the *credit union*. The credit union serves the consumers of financial services and is owned and democratically controlled by its borrowers and savers. *Housing co-ops* (owned by their tenants) also fit into this category. A new field for consumer-owned co-ops in Ireland is the rapidly growing field of *wind power*.

In North America, you can find *health care co-ops* (health care centres and hospitals owned by their patients), *electricity supply co-ops* and *telephone co-ops* (owned by the people who use the

electricity and the phone services), and *water co-ops* (water supply systems owned by the people who drink the water). There are also *radio and viewer-owned TV stations* owned by the listeners and viewers.

In Sweden, in addition to an extensive network of consumer-owned hypermarkets and department stores, the consumer co-operative movement has acquired a number of high quality, conventional retail businesses and brought them into the co-operative fold. These new businesses include a major bookstore chain and a leading chain of toyshops. Co-operative members may now enjoy rebates on their purchases when shopping at these stores.

See Boxes 2.1 and 2.2 for more examples of the innovative consumer co-operatives which are emerging around the world.

Box 2.1

Consumer co-ops for the 21st Century (Example I)

Easy on the pocket, kind to the environment

1. Car-sharing co-ops

This idea started in Switzerland in the late 1980s, but has spread already to Germany, Denmark, Holland, UK, Sweden, Austria and Italy.²

The idea is simple. Instead of the expense of owning a car that you might only use for an hour or so each day, you join a car-sharing co-op, which will enable you to book the right vehicle for your changing needs from a fleet of cars. Swiss motorists are saving an average of 250 Swiss Francs per month by using the car-share co-op, and the movement is growing rapidly. In 1987, there were 28 co-op members sharing 2 cars. Today (December 2000), there are 38,500 members sharing 1450 vehicles at 850 locations in 350 communities across the country.

² “Vu ses avantages, l’autopartage est en train de décoller en Europe.” *Le Courier de Geneve* –20.7.99.
Also see <http://www.mobility.ch/e/index.htm> for more details.

Box 2.2

Consumer co-ops for the 21st Century (Example II)

Easy on the pocket, kind to the environment

2. Energy Co-ops

With the moves toward deregulation of electricity supply, more and more countries will be experiencing the kind of energy market which already exists in the USA where co-ops are playing an ever-increasing role. By working together, American co-ops are able to negotiate lower energy prices for their members and are developing extra ways of keeping energy costs down. They do this by working with their members to conserve energy and take greater advantage of off-peak rates. In Australia, where co-ops are only just starting to work in this area, *Co-operative Energy* has helped a group of non-profit agencies for the elderly to cut their energy costs by an average 32%.

2. PRODUCER CO-OPS

(Co-ops owned and controlled by independent producers who use their co-op to help improve their own individual businesses)

This is a type of business owned and democratically controlled by independent producers, such as *farmers, fishermen, artisans, handicraft producers and artists*, as well as other *small business operators* as varied as taxi drivers, pharmacists, hauliers and plumbers. The purpose of this kind of co-op is to help producers improve the effectiveness and profitability of their own individual businesses. For example, a *dairy co-op* can help its farmer-members get a better price for their milk by processing and marketing it for them. Agricultural producer co-ops can also provide a range of other services, including the supply of farm inputs (such as fertilisers and seeds), and access to equipment and machinery. *Handicraft co-ops* help members get a better price for their artefacts by providing training to improve members' skills and productivity, as well as marketing services and the supply of raw materials. In many parts of the world, independent taxi drivers combine to form *taxi co-operatives* to help market their taxi businesses. Typically, such a co-op provides taxi owners with a base and a dispatching service.

3. WORKER CO-OPS

(Co-ops owned by the people who work for them)

This type of co-op is less common in Ireland than the producer co-operative but is attracting increasing interest and could be a useful means of job-creation and small business development. A worker

co-op is a business owned and democratically controlled by its workers (e.g. a furniture factory, owned and controlled by the cabinet-makers, general workers and office and sales staff working for the firm; a fishing boat, owned and controlled by its crew). One of the best known examples of a worker co-op in Ireland is Crannac a furniture factory in Navan which was taken over by its workers when its former owners decided to close it down.

4. COMMUNITY CO-OPS

(Co-ops owned by the community)

This is a business that is owned and democratically controlled by the people living in a particular community. The purpose of such a co-op is to improve the viability of a community, by creating jobs, marketing the community's assets and providing needed services. For example a community co-op might create jobs by promoting the tourism potential of the community or by helping to create new worker co-operatives and other kinds of small business. It might provide needed services by, for example, setting up a village shop or running a community bus to link the village with neighbouring urban centres.

Box 2.3

Serving the periphery?

Although community co-ops have been particularly valuable in the so-called periphery of Europe, notably in Western Ireland and the highlands and islands of Scotland and remote parts of Atlantic Canada, they have also sprung up in many other parts of the world and not always in isolated rural areas.

You will also find them in disadvantaged urban areas in many of the major cities of the U.K and North America. As in rural areas, their role in the inner city is to improve the viability of a local community, by creating jobs, marketing the community's assets, keeping resources within the community and protecting and/or providing needed services.

5. MULTI-USER CO-OPS

(Co-ops owned by more than one group of users)

Often referred to as *multi-stakeholder co-ops*, this type of co-operative is owned and controlled by two or more of the groups of users described above. It might be a business owned jointly by its customers and workers (like the Eroski supermarket chain in the Basque region of Spain; or like an American health care co-op, some of which are owned jointly by medical staff and patients). Another possibility would be a producer/consumer co-op owned jointly by farmers and shoppers (like the multi-stakeholder consumer/farmer/fisherman co-ops of Iceland).

An important, growing co-operative sector, **Social Economy Co-ops**, often uses the multi-user structure. For example a child-care co-operative is often jointly owned and controlled democratically by both the parents of the children being looked after and the workers providing the care services.

2.2 How co-operatives get started

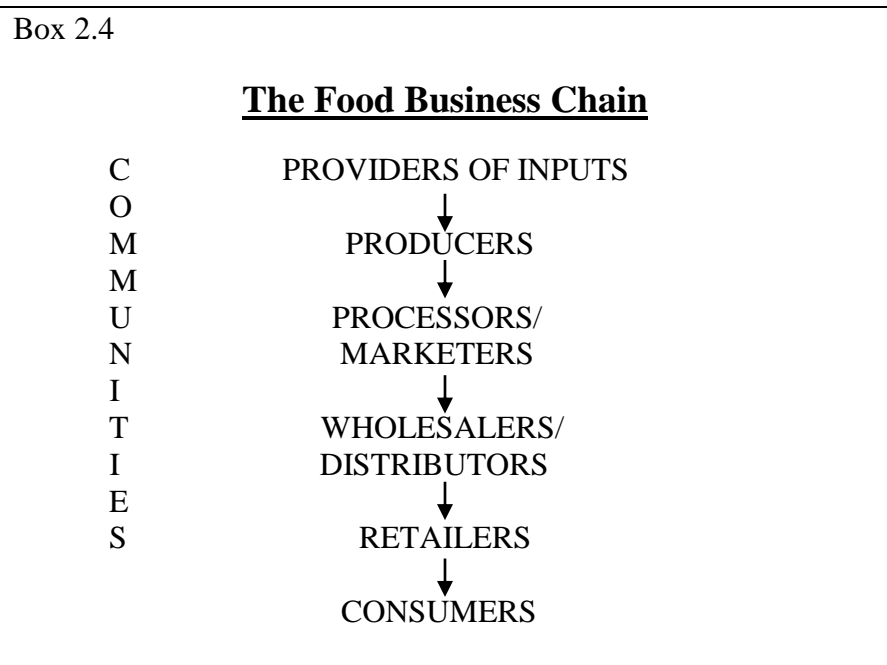
Children of distress?

Co-ops have often been referred to as *children of distress* and indeed they frequently do emerge when people are experiencing severe problems.

The original Rochdale consumer co-op emerged in an era known as the *hungry forties*. Incomes were low, prices high and jobs hard to come by. Textile workers in Rochdale had tried to improve their lot by organising a trade union and threatening to strike. But all to no avail, as there were plenty of unemployed ready to take the places of the strikers. When all else failed, citizens of Rochdale began to think about an alternative way of increasing their spending power – something less obvious than trying to threaten all-powerful employers with strike action. If they couldn't force their bosses to increase wages, maybe they could find ways to make their wages go further. By pooling their purchasing power and buying their basic needs in bulk, they would be able to get more food for their money.

They set up their co-op to be as inconspicuous as possible, selling its goods at market prices rather than trying to undercut directly the prices in company stores. The financial benefits to the members would be come in the form of a refund, paid at the end of the year in proportion to each member's purchases from the co-op.

We can also draw some tentative hypotheses about the motivations for starting co-operatives by looking at the kinds of business situation in which they emerge. Many types of co-operatives are involved in the food industry, so let us look at the food business chain (Box 2.4, below) and see where co-ops have been most likely to emerge.



Co-ops have tended to emerge at those points of the chain where people are poorly served by conventional businesses.

- **Small producers** set up co-ops in situations where they had little bargaining power in their relationships with a comparatively small number of suppliers or processors. By combining in a co-operative, they were able to get a better profit from their produce, e.g., through collectively purchasing their inputs (including finance), through collectively processing and marketing their outputs, and providing collective services to members.
- **Consumers** (particularly in Northern Europe and UK) set up co-ops when they felt themselves at a disadvantage in their relationship with retailers and other distributors. By combining their purchasing power in co-operatives, they were able to provide themselves with food of reliable quality at lower cost.

- **Workers** (particularly in Southern Europe) set up co-ops to provide themselves with more secure, better paid and more meaningful jobs than were available from conventional employers.
- Box 2.4 also draws our attention to the **Communities** in which businesses operate. A community as a whole is dependent on the businesses within its boundaries for jobs and services. Remote, endangered Communities, particularly in places like Western Ireland, the island and highlands of Scotland and Atlantic Canada where markets are small and costs of operation high, set up community-owned co-ops to provide goods and services which were unprofitable for conventional businesses and uneconomic for local authorities. In addition, important objectives for many of them were to protect the local environment and safeguard a cultural heritage under threat.

Children of Vision

Yet it would be a mistake to assume that co-operatives are products of desperation and misery alone. Co-operatives have also been motivated by powerful visions of a better world. Even in the gloomy world of Rochdale in the 1840s, desperation was not the sole or even the main motivation of the co-operative pioneers.

They were not half-starved operatives, driven by the desperation of hunger to start a co-operative store. Most of them were comparatively well paid skilled artisans, some in business on their own account. Idealism, the vision of a better social order, not hunger, inspired these men.³

Their idealism and vision showed up in the catalogue of ambitious objectives drawn up for this modest co-operative, which was to be launched with set up capital of a mere £28.

- *The establishment of a store for the sale of provisions, clothing, etc.*
- *The building, purchasing or erecting of a number of houses, in which those members desiring to assist each other in improving their domestic and social conditions may reside.*
- *To commence the manufacture of such articles as the Society may determine upon, for the employment of such*

³ Arnold Bonner, *British Co-operation*. Manchester: Co-operative Union, 1961.

members as may be without employment, or may be suffering in consequence of repeated reductions in their wages.

- *As a further benefit and security to the members of this Society, the Society shall purchase or rent an estate or estates of land, which shall be cultivated by the members who may be out of employment or whose labour may be badly remunerated.*
- *That as soon as practical, this society shall proceed to arrange the powers of production, distribution, education and government; or, in other words, to establish a self-supporting home colony of united interests, or assist other societies in establishing such colonies.⁴*

The first step was to open a store, and the pioneers set out a list of businesslike rules to ensure that the store would be operated efficiently and in the best interests of all its members (these became known as the *Rochdale Principles* and are outlined in the next chapter). The store would enable them to build the capital and skills needed to create houses for the homeless and a factory for the unemployed. The ultimate goal would be to set up a self-managing, self-supporting co-operative community, which would run its own schools, factories and farms. An ambitious vision for a group of 28 people who had taken a whole year to save between them the modest sum of £28!

Co-operative visions from Ireland

The Rochdale co-operators had developed a successful co-operative model, which stimulated the development of large-scale co-operative movements in country after country. But long before Rochdale, the Irish economist, William Thompson of Cork, had developed a vision of a co-operative system. His ideas influenced the Welsh social reformer, Robert Owen, who in turn influenced the Rochdale Pioneers.⁵

Thompson developed not only a powerful critique of the existing economic system, but also a positive vision of a better future.

Thompson encouraged the working classes to take the initiative in bringing about a new co-operative system through working class organisations such as Trade Unions.

⁴ The objectives of the Rochdale Society of Equitable Pioneers are quoted in Catherine Webb *Industrial Co-operation: the Story of a Peaceful Revolution*. Fourth Edition. Manchester: Co-operative Union, 1910, pp. 68-69.

⁵ Vincent Tucker, "Ireland and the origins of the co-operative movement," in Carla Keating (Ed.), *Plunkett and Co-operatives: past, present and future*.

He appealed to the Trade Unions to use workers' savings to set up local co-operative villages with their own industries.⁶

Positive Versus Negative Vision

Peter Senge, a leading systems theorist, argues that the kind of positive vision shared by Thompson and the Rochdale Pioneers is a much more powerful and reliable motivator than the desperate desire to avoid distress. Senge puts it like this.

“What do we want?” is different from “What do we want to avoid?” This seems obvious, but in fact negative visions are probably more common than positive visions. Many organisations truly pull together only when their survival is threatened. ...

Negative visions are limiting for three reasons. First, energy that could build something new is diverted to “preventing” something we don’t want to happen. Second, negative visions carry a subtle yet unmistakable message of powerlessness: our people really don’t care. They can only pull together when there is sufficient threat. Lastly, negative visions are inevitably short term. The organisation is motivated so long as the threat persists. Once it leaves, so does the organisation’s vision and energy.

There are two fundamental sources of energy that can motivate organisations: fear and aspiration. The power of fear underlies negative visions. The power of aspiration drives positive visions. Fear can produce extraordinary changes in short periods, but aspiration endures as a continuing source of learning and growth.⁷

According to Senge, the first quality or capability of a learning organisation (an organisation, which learns from its experience and responds appropriately to changing needs) is *aspiration*. People learn through aspiration *and* through desperation but there is a great difference in the quality of that learning. If a co-op is a child of *desperation* alone, it learns only as long as it must, stopping when the external pressures are removed. This is exactly what happens in co-operatives that have lost their original sense of purpose and are finding it difficult to develop a new reason for existence.

⁶ Briscoe, et al. *The Co-operative Idea*. UCC. Centre for Co-operative Studies, 1982, page 19.

⁷ Peter Senge, *The Fifth Discipline: the art and practice of the learning organisation*. London: Century Business, 1990, p. 225.

Senge emphasises the importance of a compelling, positive vision. *The purpose of thinking about and articulating the vision is to generate energy for change – to create a focus, enthusiasm, a sense of what might be possible. Now who knows what will actually develop? Who knows the ways in which it will develop? It may be as we imagine it, or it might also be in a way that is completely unimaginable today. The important thing is that it produces change in the right direction.*⁸

“Change in the right direction” was the immediate outcome of the vision formulated by the Rochdale Pioneers in their 1844 list of objectives (outlined above). Their inspiring vision of the self-supporting, co-operative community was never achieved, but it did move things in the right direction toward the *unimaginable* world-wide co-operative movement of today, involving more than 725 million people working together in 750,000 co-operatives.

Similarly, in Ireland, the co-operative visions of George William Russell (AE), helped move the Irish co-operative movement in the right direction and, farther afield, influenced the thinking of people like Rabindranath Tagore and Mahatma Gandhi.

In his book *The National Being*, AE developed a vision of a new rural civilisation and urged individual co-ops to look beyond their immediate problems and work together to create a new social organism.

It is not enough to organise farmers in a district for one purpose only – into a credit society, a dairy society, a fruit society, a bacon factory, or in a co-operative store. All these may be and must be beginnings, but if they are to develop and absorb all rural business into their organisation, they will have little effect on character. No true social organism will have been created. ... If co-operative societies are specialised for this purpose or that ...the limitation of objective prevents a true social organism from being formed. The latter has a tremendous effect on human character. The specialised society only develops economic efficiency. The evolution of society beyond its present level depends absolutely on its power to unite and create true social organism.”⁹

⁸ Peter Senge, quoted in Russell Di Carlo (Ed.), *Towards a New World View: Conversations on the Leading Edge*. Edinburgh: Floris Books. 1996, p.229.

⁹ G.W. Russell (AE). *The National Being: some thoughts on an Irish polity*. Dublin: Irish Academic Press, 1982.

Chapter 3

What co-ops have in common

So far, we have explored the extraordinary variety of businesses operating as co-operatives. We have seen that they serve many different types of users and offer a multitude of goods and services, ranging from comprehensive, state-of the-art health services in America to processing and marketing the milk of a villager's buffalo in India. In spite of such huge differences of scale and technology, all of these businesses share common characteristics. In this and the next chapter, we explore these common characteristics and define more precisely the concept of a co-operative. We start by discussing the *co-operative principles*, which have been used, above all, to define the legal structure of co-ops.

3.1 The Principles of Co-operation

So far we have used a rough working definition of a co-op as *a self-help business, owned and democratically controlled by the people who use its services*. This definition gives us a useful, general picture but is very incomplete. Co-operatives in most parts of the world are required by co-operative legislation to abide by a number of so-called '**principles of co-operation**'. These principles are sometimes called **the Rochdale Principles**, so named after the successful consumer co-operative discussed in Chapter 2. The Rochdale Principles have become the most popular basis for defining the concept of the co-operative. They are summarised below.¹⁰ The first three are the ones most commonly incorporated into legislation to provide a legal definition of the essential characteristics of the co-operative.

¹⁰ The following summary of co-operative principles is adapted from the Statement on Co-operative Identity and Principles as approved at the International Co-operative Alliance Congress, Manchester, September 1995. The full text of this Statement may be found in Appendix 1. These principles are adapted from the so-called Rochdale Principles that were developed in 1844 by the pioneers who set up the Rochdale Equitable Pioneers' Society.

1. Voluntary and Open Membership.

Membership in a co-op is open. Anyone who can make use of a co-op's services should be free to join. In a consumer co-op, for example, any customer is entitled to become a member and enjoy the benefits of the co-op. In a worker co-op, any permanent employee in the co-op is entitled to become a member.

2. Democratic Member Control

The co-op should be democratically controlled and administered. All members have an equal say in the co-op's annual general meeting and in elections for the board of directors. The Board in turn appoints the manager and oversees the running of the co-op. Voting rights go with membership, not with the size of capital invested or number of shares owned (as would happen in a conventional company). The rule is **one member one vote**. In other words, you can't buy more votes in a co-op by investing more money. To become a member in a co-op, you usually have to buy at least one share. Some co-ops will let you buy more than one share, many will *require* that you buy more, but these additional shares will **not** provide you with more votes.

3. Member Economic Participation

Members should contribute equitably and control democratically the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. A number of approaches are used to ensure that capital is controlled democratically and equitably.

Limited return on share capital

Typically, Co-ops are required to pay only a limited return on shares. In a conventional company, profits are distributed in proportion to the number of shares you own; not so in a co-op. In co-ops you are paid no more than a fixed rate of interest on the money you have invested in shares. At most, co-ops pay a return on share capital that is similar to the interest rate you would get on your money in an ordinary savings account at a bank.

Co-ops distribute profits in proportion to members' use of the co-op.

Instead of distributing profit according to shares owned, which is what happens in the conventional business, co-ops typically distribute profits according to how much members have used the business. In a consumer co-op, for example, profits are distributed to customers in proportion to the amount they have bought from the co-op during the year. In

a dairy co-op, profits are distributed in proportion to the amount of milk farmers supply to their co-op.

Issue bonus shares

Some co-ops, when distributing profits according to use, issue those payments in the form of bonus shares. Typically, these shares cannot be redeemed for cash immediately, but must be retained within the co-op for an agreed period. This enables the co-operative to reward members for their use of the co-op, while continuing to have the use of the allocated capital.

Reinvest profits in the co-op

Of course, co-operatives are not obliged to distribute any profits at all. It all depends on the wishes of the members and the financial state of the business. Members may choose to reinvest all of the profits in their co-operative to help build the business and expand its range of services.

4. Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. When they deal with other organisations, they should do so on terms that ensure democratic control by their members and maintain their co-operative autonomy. For example, to safeguard their autonomy, they should avoid becoming too dependent on Government grants and subsidised services.

5. Education, Training and Information

Co-ops should invest in building the abilities and capacities of their members' and employees. Because co-ops exist to encourage the development of people, they should spend some of their profits on developing their members (to improve their ability to run their own affairs). They should also try to inform the general public (to show them how the techniques of co-operation can be applied to the solution of societal problems).

6. Co-operation among co-operatives

Co-ops should co-operate with other co-ops. Co-ops usually start out as tiny businesses set up by relatively poor people with very limited resources. They are much more likely to prosper if they work closely with other co-ops. This is why you find credit unions working together to set up a central body to provide affordable services to them all, and small retail co-ops co-operating to run a wholesaling organisation so they can enjoy the cost advantages of bulk buying. See Box 3.1 for a North American example of international co-operation between co-ops.

Box 3.1

Co-operation between co-operatives

The largest co-operative in America is Farmland Industries (one of the top 200 Fortune 500-listed companies). Established in 1929, Farmland Industries is a co-operative owned by 1,700 smaller co-operatives representing some 600,000 farmers in the United States, Canada and Mexico. It offers a range of services to its members that would be well beyond the resources of any of the smaller co-ops that have banded together under its umbrella. Farmland provides its member-owners with a wide range of agricultural inputs (including petroleum products) and, at the other end of the food chain adds value to their members' food and fibre products, and markets them globally.

7. Concern for community

While focusing on members' needs and wishes, co-operatives also work for the sustainable development of their communities through policies approved by their members.

3.2 The co-operative difference

As mentioned above, the first three of the Co-operative Principles (*Open Membership; Democratic Control; Member Economic Participation*) are typically used by governments to define the legal structure within which a co-op must operate.

These three principles spell out some of the obvious differences between a co-op and a conventional firm.

- **A co-op** is open to new members who can use the co-operative's services.
A conventional firm tends to restrict ownership to a limited elite of relatively wealthy owners.
- **In a co-op**, member control is organised according to democratic principles – one member one vote.
In a conventional firm you get votes according to the number of shares you own or control.
- **In a co-op** profits are shared equitably, usually according to a member's usage of the business's services, not according to the number of shares owned.
In a conventional firm profits are distributed according to shareholding.

3.3 The importance of the co-operative process

It's not what you do, it's the way that you do it!

These principles provide us with a more precise definition of the co-operative, but are still incomplete. They over-emphasise the *structural* features of the organisation while neglecting the quality of the *process* carried out within that structure.

This has led to the peculiar tendency to regard organisations as fully-functioning co-operatives “simply because they abide by minimal structural requirements, without ever considering the *quality of the relationship* between members, their co-operative and the community at large.”¹¹ They define aspects of the **structure** of a co-operative but give us little help in understanding the **process** of how to operate an effective co-operative within that structure.¹² Researchers at the Centre for Co-operative Studies stressed the need for *process guidelines* (such as *participation in decision-making, openness in operations and communications* and *social responsibility to the wider community*) as well as *structural guidelines* (such as *open membership* and *democratic control*).

Also the principles can't be treated in isolation from one another. They work together. Leave some of them out and the whole structure doesn't work properly. For example, it's not much use having a *democratic voting structure*, if no effort is put into to the *education* needed to build the skills and capacity of members to question the opinions and assess the performance of their managers and officials. Nor is it any use having *democratic voting structures* if *membership is limited* to a small elite of people in the know.

In the next Chapter we shall look at how things are done within effective co-ops. In other words, we shall be looking beyond the structural characteristics of co-ops to the unique features of the *process* of running a successful co-op.

¹¹ Briscoe, et al. 1982. *The Co-operative Idea*. UCC: Centre for Co-operative Studies, page 39.

¹² This is particularly true of those principles, discussed above, which have been incorporated in co-operative legislation. They define basic aspects of a co-operative **structure**.

Chapter 4

The Co-operative Process¹³

At the end of Chapter 3, we listed some of the differences between co-ops and conventional businesses. Important as those differences are, they only scratch the surface when trying to understand the distinctiveness of the co-operative form of organisation.

4.1 The people-centred business

What is really so special about a co-operative, and why are those special features so important? Let us start by dividing the world of business into two distinct camps.

*There are in reality only two types of business - that which is **capital-controlled** and that which is **people-centred**.*¹⁴

The terms *capital-controlled* and *people-centred* are taken from the work of Edgar Parnell, former Chief Executive of the Plunkett Foundation for Co-operative Studies. According to Parnell, the central feature of a people-centred business (or PCB for short) is that

*"it exists to serve the needs of the people who are users of the business, instead of placing investors in the driving seat."*¹⁵

Co-operatives are, of course, the commonest examples of the PCB. Other examples would include businesses such as building societies and not for profit organisations such as OXFAM-Trading which aims to raise money to fund OXFAM's development work overseas.

The second kind of business identified by Parnell is the Investor-Driven Business, or IDB. The basic purpose of the IDB is not

¹³ This chapter recaps and expands upon Section 1 of *Module 7 Co-operative Management* of the Diploma in Social Integration and Enterprise, UCC. Centre for Co-operative Studies, 1997.

¹⁴ Edgar Parnell, 1990. *People-Centred Business: PCBs - what they are, how they become successful and why they are important*. Oxford: Plunkett Foundation for Co-operative Studies, p.1.

¹⁵ *Ibid.*, page 2.

about serving the needs of *users* but about meeting the needs of the *investors* who own the business - meeting their needs for a good return on their investment, through dividends and capital growth. One of the problems facing the investor-driven business is that it is often under pressure to meet short-term objectives to protect itself from the possibility of take-over or to maintain its position in the capital markets. And it is this short-term focus that is at the root of so many of the world's environmental problems.

Box 4.1

The key differences between an Investor-Driven Business (IDB) and a Person-Centred Business (PCB).

The main aim of an IDB is to meet the needs of the *investors who own the business* - in particular, their need for a satisfactory return on their investment. The prime purpose of a PCB, on the other hand, is to meet the needs of *the people who use the business* - their needs for particular benefits and services. The decisions about which particular benefits and services are to be provided by a PCB are made by the users of the business. In an IDB, on the other hand, it is the investors, not the users, who are in the driving seat.

4.2 US and THEM: Two ways to run the world

Parnell divided the world of business into two categories. Let's broaden the discussion a little. Let's look at *how we try to get things done in general*, not just in businesses, but also in associations of all kinds as well as in our everyday life. Like Parnell, we're going to divide the world into two distinct camps.

Like Parnell, we could argue that there are two fundamental ways of getting things done. Let's try to avoid sociological jargon, and use instead very simple terms to describe these two approaches.¹⁶

¹⁶ The following discussion is based on a study published in the early days of the Centre for Co-operative Studies at University College, Cork. The study was carried out by an interdisciplinary team and was published as - Briscoe, et al. 1982. *The Co-operative Idea*. UCC: Centre for Co-operative Studies, Chapter 4, pages 27-36.

There is the **THEM** way of getting things done¹⁷, and the **US** way.¹⁸

Let's start by looking at the THEM approach. We might also call it the *conventional theory of action*. It is based on the idea that

the best way of solving problems and meeting needs is to leave it all to THEM - to small elites of unusually resourceful, powerful or wealthy people .

If you think about it, this is the usual way things get done. We have a problem or a need to be met, so we complain a bit and wait around for THEM to do something about it. In other words, we wait until somebody important - a business person, a politician, an expert of some sort - decides that it is in their own interests to do something about our problem.

The answer to our problem usually comes in the form of a product or service, which is offered to us at a price. It may take a long time before anyone gets around to doing anything about our problem, years, decades, even centuries! But when it eventually *does* happen, we simply buy into the new product or service to see if it does indeed solve our problem for us.

The important people, who take action on our behalf, show *initiative*. They take the responsibility and risks involved in starting something new. The rest of us have little part to play in the process apart from complaining, and waiting. Our role is the role of shoppers, and patients. We spend much of our lives queuing, and the poorer we are the more of our time is spent waiting in lines. We are the passive audience of great events performed by important actors.

Now this is such a widely accepted notion of how things get done, that it is often very hard to see any alternative to it. The vast majority of the world's organisations are THEM organisations. Most businesses, most governmental agencies, most intergovernmental organisations (like the United Nations), most churches, hospitals, schools and universities and a high proportion of voluntary organisations are in the THEM camp. The phenomenon even transcends political systems. Both capitalist and socialist societies are organised on the same THEM principles.

¹⁷ Referred to in *The Co-operative Idea* as the **Conventional Approach to Meeting Human Needs**.

¹⁸ Referred to in *The Co-operative Idea* as the **Co-operative Approach to Meeting Human Needs**.

Box 4.2

The CONVENTIONAL APPROACH to meeting needs

According to this approach, the way to satisfy needs is to purchase appropriate products or services from people who establish themselves as the providers of such products and services. So typical is this method that it is often taken for granted and assumed to be the most efficient, if not the only possible means of satisfying human needs. This method of meeting needs not only characterises relationships between consumer, distributor and manufacturer but also the dealings between farmer and private processor. When farmers sell their produce through a private processor, they are in effect purchasing the processing and marketing services they need to turn their own produce into saleable products.

The Co-operative Idea, page 27.

If THEM enterprises have such a widespread dominion, what else is possible? Do other alternatives exist? This is where the US approach comes in. US organisations emerge in situations where conventional structures are unable to meet important human needs.

The US approach, which we might call the *co-operative theory of action*, turns the conventional way of doing things upside down. According to this theory,

things get done most effectively when the people experiencing the problems get together with others like themselves and combine their energies, skills and resources to set up their own organisations. With these organisations they provide themselves with products, services or experiences especially designed to meet their common needs.

In other words, the US way of getting things done is for the ordinary people with the needs and the problems - you and me - to combine together and do things for ourselves. US organisations are designed around the needs of their users, and the users themselves are active in tailoring the organisations to their own special needs. Usually profits are less important than the quality and nature of the services and the relationships provided by the organisation.

Now this is very different from the way most organisations operate. The people in charge of the typical organisation have not the slightest interest in using its services themselves. The people in charge of THEM organisations have other goals to achieve. Their

goals are not totally restricted to profits, but may also include self-fulfilment, security, power and influence, freedom of action, self-esteem - or any combination of the above.

The US approach is also very different from the way most public-service organisations are run. Many public agencies were originally designed around their clients' needs, but usually they do not invite their users' participation in major decisions. And because users are not involved in any significant way, the original purposes of the organisations tend to be displaced by the needs of the elites who are in charge.

Box 4.3

The CO-OPERATIVE APPROACH to meeting needs

According to this approach, the way to satisfy needs and solve problems is to combine with others, who are in a similar situation, to design an organisation and delivery system specifically for the purpose of meeting those needs. When the organisation is established, the members continue to monitor it and shape it in order to ensure that it goes on meeting their needs. ...

When farmers sell their produce to private processors, the processors are, naturally enough, more concerned with their own problems of securing adequate supplies at a low cost than with the variety of problems faced by farmers. An effective dairy co-operative is much more likely to design its services to meet a wide range of the needs and problems experienced by farmers. It is therefore no accident that dairy co-operatives in Ireland have tended to become multi-purpose, not just concerned with processing milk but also with helping farmers secure inputs (such as fertilisers) and deal with local problems (such as land reclamation and rural water supplies).

The Co-operative Idea, pages 27-29.

4.3 THEM: The conventional theory of action

Let's try to understand all of this better by taking a closer look at some of the distinguishing features of these two ways of getting things done.

In the THEM approach to organising, the first key characteristic is that

1. Users are treated as passive objects

Clients and users are generally seen as rather ill-informed, incompetent people who must rely on experts to provide the answers to their problems. Because the users are thought to have little to contribute to the management of the organisation, it makes sense to concentrate decision-making in the hands of the *experts* and treat the rest of us as passive objects to be serviced and even manipulated for our own good.

Strangely enough, this is much the same argument used by democratic theorists such as Dahl and Sartori¹⁹ who argue in effect that parliamentary democracy can only work because most people don't take democratic values seriously. According to this view, wholesale apathy is vital. Without it the system would grind to a halt!

2. Users treated as isolated and competing individuals

The THEM approach is likely to work best if people relate to the organisation as isolated individuals, competing against one another for a good bargain. The competitive quest for one's own self-interest is seen as the most efficient way to meet needs and allocate resources. Pressure groups of users, like consumers associations or trades unions, are discouraged because they create inflexibility in the system thereby reducing efficiency.

¹⁹ Their arguments are discussed in Carole Pateman, 1970. *Participation and democratic theory*. Cambridge University Press, pages 8 to 12.

3. The power to design and manage the organisation is concentrated in the hands of a small elite

As a result of this concentration of power, most THEM organisations end up being designed for the well-being of a narrow elite, and the needs of its main constituents are not the prime purpose of the organisation. Its prime beneficiaries are the dominant elites and their main interests are not in the particular products of an organisation but in things like profits, return on investment, security, self-fulfilment and freedom of action.

Some might argue that this is rather a cynical portrait of traditional ways of getting things done. But it is probable that most conventional practitioners would say that the THEM approach is the only sensible way of running an organisation.

Parnell criticised IDBs (Investor-Driven Businesses) for having a short-term focus on profits. But let's look at an example outside of the business world. Consider how a great many schools are run.

- The Users - the children and their parents - remain relatively passive in the design of schooling and its governance.
- Classrooms are designed as arenas in which individuals follow instructions and compete against one another for a limited number of 'A' grades, university places and jobs. Co-operation is labelled as cheating.
- The design of the whole enterprise focuses less on the development of the talents of its users, than on failing people. The brightest are creamed off; the rest of us are persuaded, by hard experience, not to be too ambitious.
- Curricula and teaching methods often seem to be designed more for the convenience of educational managers than for the fulfilment of the learning needs of the students.

Clearly, the THEM approach is a convenient theory of action for the elites of the world. It is also accepted by most of us as inevitable. Most assume that it is the only possible way of getting things done in a reasonably orderly manner.

Ways of implementing this mode of organising have changed dramatically over the years. In its nastier versions, an elite ruled simply because it had the power to club you over the head if you didn't go along with it. Under the more liberal forms of capitalism, elites could remain as elites only if their goods and services competed successfully in terms of quality and price, which made

life much pleasanter for the ultimate consumer. Perhaps the most comforting version of this approach to organising is parliamentary democracy, which makes it possible, from time to time, to swap one elite for another, though it is often hard to find any significant difference between the elites on offer.

This approach to organising has proved remarkably efficient at getting things done, but only in a limited range of situations and often at enormous social and environmental costs. It is useful for mass-producing tangible, consumer goods and for providing simple services, and is outstandingly efficient at building the wealth and security of tenure of the small elites who call the tune. It is far less successful in important areas of human need such as health, education, the appropriate development of underdeveloped regions, the husbanding of scarce resources, environmental protection, peace and security. In these less tangible areas, the conventional approach to organising often undermines the quality of life for the majority of people. To address such issues we need to turn to a radically different way of getting things done.

4.4 US: The co-operative theory of action

The theory of action which is implicit in the operations of effective co-operatives is very different from the THEM approach. Let's summarise the US approach again.

We address human needs and problems most effectively when the people experiencing those needs and problems combine with others in a similar situation and get actively involved in the design of organisational strategies which will enable them to solve their own problems and meet their own needs.

This revolutionary theory of action may be summarised in the following principles of co-operative action.

Principles of Co-operative Action.

Organisations are likely to be most effective when they practise the following three principles.

1. Activation of Users

The people experiencing problems and needs are actively involved in the process of designing services, activities and structures to address those problems; they are treated as

origins of action, not passive objects to be serviced and manipulated.

In other words, people are encouraged to do things for themselves, and to acquire the skills needed to run their own affairs. Instead of being passive objects, they become origins of action. The assumption behind this principle is that things get done more effectively when the people using the organisation are knowledgeable, conscious of the nature of their needs and problems, and actively involved in seeking effective solutions.

Who are these users who are to be *activated* in the solutions of their own problems? Consider our earlier discussion of the various categories of beneficiaries of co-ops. The users who are to be *activated* might be **consumers** seeking more effective products or services, **workers** trying to create worthwhile jobs, farmers or other **producers** looking for more effective ways of marketing their produce, or even whole **communities** searching for ways to increase employment and prosperity in their region.

Most conventionally-trained managers might consider this *activation* principle a recipe for disaster! Used appropriately, however, it can greatly enhance effectiveness. People are more likely to understand and be committed to courses of action they choose for themselves; and the strategies they choose are more likely to fit their needs than the grand schemes handed down from on high by would-be exploiters or do-gooders.

2. Mutual Aid

Those experiencing the problems and needs pool their efforts and resources to help one another develop collective solutions to their mutual problems.

In other words, things are likely to work more efficiently if we work together to develop collective solutions. The underlying assumption is that co-operation and mutual support produce better solutions than the attempts of isolated people.

For example, a poor person can meet her need for credit individually by borrowing from a money lender - at exorbitant rates of interest. When she combines with others, she can help set up and run a credit union, which can free her from unmanageable debt.

We can solve our housing problems individually by buying or renting our own house. Collectively, we could set up a housing co-

operative, combine our skills and resources to do the work more cheaply and even design our own neighbourhood to meet our needs.

3. Design for Use

The organisation itself, its products, services and activities are self-consciously designed for use, i.e. to be helpful to the people who use its products and services (instead of being designed around the goals of a limited elite). The people with the needs and the problems are actively involved in this design process.

If the prime purpose of our co-operative organisation is to promote the well-being of its users, it would seem logical for every aspect of the organisation to be tailored self-consciously to people's needs. Everything about it, its structure and management styles, its products and services, its facilities and location, its member education programmes should *all* be designed to address the key problems experienced by the organisation's users.

Box 4.4

Understanding Design for Use

What happens when we don't design for use?

Conventional organisations do not typically design products or services for use. Their services derive from the profit-making process; they are not ends in themselves but particular strategies for making money or for ensuring the strength and growth of the organisation. Perhaps that is why we end up with transportation systems which maximise the depletion of natural resources; tower flats no one wants to live in; school systems which sometimes seem to be designed to fail students; food companies which sell highly processed snacks rather than nutritious food; and whole economies which seem to be ingeniously designed to starve the poor and overfeed the rich.

The Co-operative Idea, pages 35 –36.

Box 4.5

Understanding Design for Use (continued)

What does Design For Use look like?

*An effective co-operative with activated members working together to solve mutual problems is more likely to design its services self-consciously for use because it is clearly focused on the interests of members. For example, an effective **dairy co-operative** will be concerned with providing services to ensure its members' continuing prosperity as dairy farmers... The conventional firm is less likely to care about the well-being of the farmer in a particular geographic region than about securing the most economical supplies from whatever source.*

***In the consumer field**, effective co-ops have redesigned the process of retailing in the interests of the consumer. Such redesign has involved innovative policies and practices in the fields of marketing, merchandising, consumer information, store design, division of labour between customers and staff and/or product design.*

*Similarly, many **worker co-ops** put great emphasis on things like the quality of working life and producing high quality goods and services rather than producing for profit alone.*

The Co-operative Idea, pages 35 –36.

Box 4.6

Comparison of THEM and US approaches

- **In the THEM approach**, users are kept passive & dependent; - **in the US approach**, users are encouraged to be active shapers of the organisation.
- **In the THEM approach**, users are dealt with as isolated individuals, and are encouraged to compete against one another; **in the US approach**, users are encouraged to help one another develop solutions to their common problems.
- **In the THEM approach**, the organisation is designed primarily to serve the needs of a small elite of, e.g., investors, & leaders; **in the US approach**, the organisation is tailored to the needs of its users.

4.5 Losing weight - according to THEM and US

Let's take a look at a dramatic example to underline the difference between the two approaches.

Increasing numbers of people in developed countries have the problem of being overweight. Maybe we should say they *think* they have a problem, because it's not just those whose health is endangered by their weight who are worried about their size. Plenty of quite skinny people are obsessed about their weight because they have been led to believe that all of those emaciated models and movie stars are ideals worth emulating. It is a common ploy of the THEM approach to try to convince us that we are suffering from a spurious problem that only they can solve.

You might think that losing weight would be the sort of problem best solved by cutting down on your calories, taking more exercise and buying *less* rather than buying more from THEM. But just think of the ingenious range of products and services that they have invented to help you lose weight and relieve you of your money.

THEM Solutions

- Crash diet programmes based on the apparently magical qualities of particular foodstuffs (last year it was pineapples you had to eat, the year before grapefruit).
- The books and consultations sold by the inventors of these courses.
- Tiny frozen meals costing more than normal-sized portions.
- Bulk foods and drugs to kill your appetite.
- Artificial sweeteners and diet drinks.
- So called "fat farms," luxurious quasi-prison camps where you pay huge sums of money to exercise under supervision and be subjected to starvation diets.
- Subscriptions to gyms and swimming pools for exercise regimes of varying degrees of severity.
- Expensive surgical treatments like liposuction, the grim medical procedure for sucking away excess fat cells from various parts of your anatomy with a sort of surgical vacuum cleaner. Unfortunately, when you start to put weight on again, you may well be left with pits and hollows where the old fat cells used to be.
- You can even get your stomach stapled so that it's physically impossible for you to over-eat!

What would an US approach to weight-reduction look like? A suitable strategy might look something like this.

US Solutions

Groups of people with the same problem would get together to set reasonable and safe goals for weight loss, would give each other mutual support and share in gentle exercise programmes unlikely to shock their poor bodies into a heart attack.

This would be a viable strategy, all at a fraction of the cost of buying ineffective and often dangerous treatments from THEM. It is also a strategy which groups of people can practise themselves without great expense. Some clever THEM organisations, however, have recognised the power of this US strategy and are charging us to participate!

4.6 Food shopping according to THEM and US

THEM Tactics

The aim is to sell as much as possible to customers, regardless of the nutritional value of foodstuffs, with a preference for well-advertised, high mark-up lines that will build company profits. As a result, the following kinds of promotional gimmicks are widely used.

- display dumps of highly advertised, high margin snacks
- child-eye-level displays at the checkout
- prime locations for high margin goods.

An US Approach

As an example, let's look at how a co-operative approach to food distribution might differ from conventional strategies.

In the 1960s, consumer groups in Canada developed an approach to food distribution, which effectively redesigned the process of retailing in the interests of the customer. A *direct charge co-op* is a form of retail store which is open to members only and which sells its merchandise at wholesale prices. For the privilege of buying goods at wholesale, members undertake to finance the business by investing in redeemable shares and paying a fixed weekly fee to cover the operating costs. This fee is calculated by dividing the weekly operating expenses by the number of members.

The weekly fee is kept low by tight management of costs. This may involve housing the store in a simple metal building on an inexpensive site, stacking foods in cut cases on warehouse shelving, and encouraging members to perform all or some of the labour involved in running the store. In some cases, members do the bulk of the shelf-stocking and cleaning on a volunteer rota, in others, most of the work is done by paid staff but members may be required to pack their own goods, return shopping carts to the store, etc.

Direct charge stores claim to save the consumer money not only by keeping prices down but also by removing some of the pressures on people to buy. Because the co-op will receive the income it needs to operate regardless of sales level, it has no vested interest in inducing people to buy more than they need. In effect, it is *purchasing for* members rather than *selling to* them. It can therefore dispense with promotional gimmicks, such as display dumps of high margin junk foods, child-eye-level displays at the checkout or prime locations for high margin goods.

The most effective consumer co-ops have been able to offer distinctive advantages to members, not by copying the competition, but by radically redesigning the process of retailing in the interests of the customer. The active involvement of members helps keep costs down and earns commitment by getting them to participate in group decision-making about the balance between costs and levels of service, etc.

Box 4.4 (above) gives additional examples of design for use in producer, consumer and worker co-operatives.

4.7 A stimulus to imagination

Just in case this is sounding like a one-sided attack on the THEM approach, it is important to emphasise again that both THEM and US approaches have their uses. The problem is that THEM is often used inappropriately, in situations where it cannot possibly work effectively. This happens because most of us think that it is the only approach available to us. It is the inappropriate use of THEM strategies that lie at the root of some of our most serious problems.

This way of classifying our **ways of getting things done** can be enormously useful. Above all, it is a stimulus to the imagination and helps us to think creatively about the problems we are confronting. If you try it yourself, you will find yourself looking at

problems and tasks with new eyes. Whenever you are confronted by a difficult management problem, or are concerned that your organisation is losing its competitive edge, remember to ask yourself how can you use the US approach to redesign this situation.

A useful exercise to open up your thinking is to try to imagine what an US approach might look like in a range of different fields.

1. What might an US approach to education look like; how might you redesign learning situations; how might you redesign systems of governance for schools, colleges and universities?
2. How might you redesign the field of health care, everything from preventative programmes, professional services, to hospital care and services for people with special needs?
3. How might you improve the effectiveness of a policing system by use of the US approach.
4. How might you redesign our approaches to foreign aid and third world development?

This way of thinking is particularly valuable to established, co-operatives of all kinds. A management consultant in Australia, makes a living from challenging the thinking of successful credit unions. When a credit union has reached the stage where it seems almost indistinguishable from a bank, he is brought in to goad them into thinking from an US perspective. The process is a powerful method for revitalising a complacent organisation and making it more responsive to the changing needs of its members.

Managing co-operatives is not an easy task. As we have seen, you not only have to run a successful business, you also have to ensure that it continues to adapt to members' changing needs. A pioneer American co-operator, Murray Lincoln, wrote a book entitled **Vice-president in charge of revolution** about his experiences working with electricity co-ops serving farmers. He argued that to remain successful as a co-operative it was necessary to appoint a top executive with the responsibility to foment perpetual revolution. Complacency is the big enemy of successful co-operatives and credit unions. But you don't have to hire that Australian consultant or appoint a VP in charge of revolution. You can do it yourself by practising upside-down thinking with the help of US.

Chapter 5

Competitive advantage or handicap?

Are co-operative values a help or a hindrance in the marketplace? These are the questions we shall explore in this Chapter and the next.

Co-operatives, as we have seen, are a very different kind of business. They seem to turn the world of commerce upside down.

- They are controlled democratically by the people who use their services, rather than by absentee *investors*.
- They share the profits on the basis of use rather than investment.
- They emphasise social as well as business goals.

All of this means that co-operatives do not have the single-minded focus on profits, which is seen by many as the key strength of the conventional business approach. Yet co-operatives do manage to compete successfully with their conventional rivals. The following announcement, picked from an Email received on the day this paragraph was written, is not uncommon.

**RECORD EARNINGS FOR
FEDERATED CO-OPERATIVES, LTD.**

FCL of Western Canada has announced their year end results. Net savings were at an all time high of \$172,610,000. This represents a before tax return on members' equity of 29.5%.²⁰

This chapter explores the issue of how co-operatives, with all their unconventional practices, are able to compete in the marketplace. What, if any, are their special ***competitive advantages***? In Section 5.1, we start by revisiting the US approach, discussed in Chapter 4 and examining its possible competitive advantages. In section 5.2, we look at the potential competitive advantages inherent in the Co-operative Principles, which were discussed in Chapter 3.

²⁰ *Co-operative News Briefs*. The Canadian Co-operative Association. January 18, 2001

5.1 The Competitive Advantages of the Co-op Idea

Let's summarise the possible competitive advantages that might flow from each of the key characteristics of the co-operative process – the US approach to getting things done.

DESIGN FOR USE

a) Single-mindedness

While co-ops cannot claim to have a single-minded focus on **profitability** (a key strength of conventional business), they *can* claim to have a single-minded focus on the interests and needs of a particular group of **users**. Arguably, this gives co-ops a competitive advantage in designing and offering highly appropriate services for their **users** (producers, consumers, workers or communities). The possibilities for meeting our needs as users are limited only by our creativity.

b) No absentee owners to reward

A closely related competitive advantage over conventional businesses is that co-ops do not have to pay substantial portions of their profits to outside investors. This helps provide the co-op with extra resources for meeting the interests and needs of their users. According to David Thirkell of the Plunkett Foundation, it is the single-minded ***focus of agricultural co-ops on the needs of farmers*** and the ***freedom from the requirement to reward rich investors***, which give these co-ops a substantial competitive edge over conventional business. Thirkell summarises the competitive advantage of farmers' co-operatives as follows.

*Funds and assets in an **agricultural co-operative** are a means to an end – a mechanism for delivering benefits to the participating farm businesses. On the other hand, the purpose of an **investment-based company** is to generate a return on shareholder investment, passing it back to the shareholder either as dividend or enhanced share value.*

This means that agricultural companies are unlikely to provide farmers with services from which they cannot generate profit. In the absence of co-operation between farm businesses, services such as machinery rings simply would not exist.

In practice, these two approaches to business operation translate into quite different objectives. For example, in relation to cereal production:

The user-benefit business (the co-operative) is dedicated to generating profit per hectare for the farm business by means of lower input and production costs, the best technical advice and higher selling prices. The investment-return business, the merchant, is dedicated to generating profit for its shareholders by selling inputs (seed, agro-chemicals, etc.) at the highest possible price and purchasing the resulting crop at the lowest possible.

In short, the co-operative exists to make money for farmers; the investment-based agricultural company exists to make money from farmers.

To suggest, as some are inclined to do, that a user-benefit enterprise is somehow inherently less commercial, entrepreneurial or incisive in its decision-making than its investment-based equivalent is profoundly illogical. The only valid measures of [the farmers' co-operative's] success are the extent to which produce prices have been enhanced, input prices reduced or farm profit increased by the provision of relevant services. It cannot be measured simply by the organisational profit of the co-operative itself.²¹

c) The competitive advantage of a DREAM

In an earlier chapter, we had talked about co-operatives as **children of vision** and had stressed the importance of a powerful, compelling vision of the future as a motivator and energiser of co-operative development. Visions of a better world had been every bit as important for early co-operators as the determination to deal with the problems confronting them in the present.

Designing for use is part of the process for developing inspiring visions of the future. The ability to dream of new ways of doing things is beginning to be more widely recognised— not just in co-ops but also in the conventional world of business - as a key to business success. A recent article in the Harvard Business Review argued that the “*challenge for management in the Internet age is to create an industrial version of what we learn from all social and political revolutionaries' dreams.*” See Box 5.1 (below). The author was Professor John Stopford, an internationally recognised expert in the field of strategic management. It is particularly interesting to note that, far from considering the kinds of dreams dreamed by the

²¹ David Thirkell. “Ignorance abounds on the worth of farmer co-ops.” *Irish Farmers' Journal*, November 7th, 1998.

co-op pioneers as a business disadvantage, Stopford sees them as an essential requirement for business success in the 21st Century.

Box 5.1

The power of dreams!

John Stopford, Professor of International Management at the London Business School stresses the importance of dreams in running successful businesses.

It's worth pointing out that a dream isn't the same as a vision. One manager told me recently that when he hears the word 'vision' he thinks of a complicated, political-sounding memo that everyone skims and nobody takes seriously. By contrast, dreams can be the focal point for extreme energy and can inform the values that sustain that energy. Dreams have a central role in sustaining effort through the pain and the sweat of a prolonged transformation program.

Without a dream...Martin Luther King would have gotten nowhere. The challenge for management in the Internet age is to create an industrial version of what we learn from all social and political revolutionaries' dreams.

Dreams matter not just for energizing the people you have but for attracting new people. We all need to ask ourselves why we choose the work we do. In today's market for talent, more and more people are choosing companies that have a passion to create something good or exciting.²²

ACTIVATION OF USERS

a. Life on autopilot or conscious action?

We can choose to live on autopilot, fitting in with things as they are, and grumbling a bit about our problems, or we can get actively involved in changing things. Jose Maria Arizmendiarieta, the priest who inspired the development of the Mondragon co-operatives, stressed the importance of taking charge of one's own life.

²² John Stopford, "Should strategy makers become weavers of dreams?" *Harvard Business Review*, January 2001.

Nothing differentiates people so much as their attitudes to the circumstances in which they live. Those who opt to make history and change the course of events themselves have an advantage over those who decide to wait passively for the results of the change.²³

Co-operatives are the product of this determination to take action and change the course of events. If the users of the business can be encouraged to continue to take an active role in shaping their own co-operative, this will result in important competitive advantages.

- **Making sure Management do their job**

Active users will put pressure on the management to ensure that the co-operative business meets their needs more effectively than do their competitors. (See Box 5.2)

- **Building loyalty and commitment**

The very fact that users have been actively involved in the co-op's decision-making processes will build a degree of loyalty and commitment to the organisation and to the courses of action they have helped to choose.

Box 5.2

Member Involvement is good for business

A classic example of effective member involvement is provided by the Swedish motorists' co-op OK. OK was the first Petrol Company in Europe to introduce self-service at the petrol pump. But self-service was introduced only because the members insisted on it. Management had vigorously opposed the idea.

Another of OK's innovations was to provide a network of do-it-yourself car service centres for the use of members. Again, the initiative came from the members and was opposed by management. Both of these innovations proved extremely good for business.²⁴

²³ Quoted in Greg MacLeod's *From Mondragon to America: experiments in community economic development*. Sydney, Nova Scotia: University of Cape Breton Press, 1997.

²⁴ See Young and Rigge, undated., pp. 34-35.

b. Empowering USERS to take conscious control

Some co-operatives have been very successful at involving large numbers of members in their decision-making processes. *Crédit Mutuel* is an outstanding example of a highly successful co-operative business which actively involves large numbers of its members in the strategic decision making process (see Box 5.3, below).

Box 5.3

Mobilising the masses!

Crédit Mutuel, the fifth largest bank in France (in terms of deposits and loans), is a co-operative of 1,800 local banks with a total of 9.2 million customers of whom 5.2 million are members. It claims to owe its success to the quality of its products and services, its ability to innovate, its financial expertise, and the participation of 28,000 elected representatives who are actively involved in the strategic planning process of the bank.²⁵

If consumers are to be empowered to get involved in designing solutions to their needs and problems (particularly solutions as complex as *Crédit Mutuel*) *education* has a vital role to play. Enthusiasm and good intentions are no substitute for education and training in the knowledge and skills needed to manage a democracy and make a business work.

Successful co-operatives have always invested heavily in the education and development of their members. From the very beginning, the Rochdale Co-op invested 2.5% of its annual profits in education. The rapid growth of successful credit unions in Ireland was built on rigorous training of the volunteers who pioneered credit unions in their own communities.

The successful and innovative co-operative movements of Scandinavia developed out of study circles, which met in kitchens, schools, church halls, and community centres. The study circles were, in effect, tiny learning co-operatives, which soon became networks, often supported by topical discussion materials, training programmes for facilitators and radio programmes disseminating new ideas and new approaches on a national level (see Appendix 2 for guidelines on setting up and running a study circle).

The vigorous co-operative movement which developed in the Atlantic Provinces of Canada (credit unions, agricultural, consumer, fishery, housing and community co-ops), grew out of a

²⁵ See www.creditmutuel.fr the web page of Crédit Mutuel.

revolutionary adult education programme initiated by the Extension Division of St. Francis Xavier University in Antigonish, Nova Scotia. This educational programme and the co-operatives that developed from it have become known collectively as the Antigonish Movement. This was unlike any university programme that had ever been heard of. Extension workers took the programme out into the scattered communities. First mass meetings were used to spark interest. Then, in kitchen meetings around the region, the real work began of focusing on the economic and social problems, which confronted people in their own locality, and devising practical ways of addressing those problems.

The dramatically successful Mondragon Co-operative Movement in the Basque region of Spain has always invested heavily in the education of its members. The industrial worker co-ops grew out of a tiny, community-funded technical school, which provided the basic skills, necessary for successful manufacturing and management. Mondragon now incorporates a co-operative educational system, from pre-school to third level, including an Engineering School and a post-graduate business school offering MBA programmes in co-operative management. (The Mondragon experiment is discussed at greater length in Chapter 6)

Clearly, empowering people to take control of their own community organisations and businesses is not something that should be left to chance. However, the type of education that seems to work best is not the traditional approach of imposing structure from on high. What has seemed to work well in many different parts of the world is a co-operative approach to education, which uses the co-operative methodology described in Chapter 4, above. It is an approach to education in which the learner participates actively with other learners in the design of a learning process tailored to their changing needs. See Appendix 2 for a summary of the Study Circle approach, and Box 5.4 for the story of an unusually democratic *university*.

Box 5.4

The University of the Third Age (U3A)

U3A is a network of co-operatives of learners, a sort of DIY university run by and for its students. But the students aren't youngsters. U3A is designed for people of the *Third Age* - the period of active retirement, when we are largely free of family and/or work obligations. U3A was first launched in 1972 in France. One of its main goals was to help older people stave off the *Fourth Age* (the age of dependence and incapacity). In France, U3A has close ties with conventional universities, using their facilities and services. But in the UK, U3A tends to be fiercely independent of academics. It is a university with no entrance requirements, no exams, and no grades or distinction between teachers and learners.

U3A courses are many and varied, everything from history courses with field trips to prehistoric sites, to courses that focus on the special problems of older people or the unemployed. But whatever the subject, every one of them has been chosen and developed by a group of learners who have gone out into the community, found their own teachers and put together their own curriculum.

MUTUAL AID

As discussed in Chapter 4 above, the encouragement of mutual aid between people with similar needs and problems can lead to a number of competitive advantages. Mutual aid can be highly efficient compared with trying to cope on our own as isolated individuals.

a) United we stand!

By pooling resources, skills and buying power, members of a co-operative can get a leverage on life which would be impossible if they acted on their own. The emotional support of a group of people in similar situations can help members of a co-op carry out beneficial changes in lifestyle that would defeat a solitary person.

Box 5.5

Mutual aid and cheaper holidays!

A key competitive advantage of Co-ops is that they can take action on behalf of isolated consumers who would otherwise be at the mercy of large scale business interests. A recent example is the action of Leeds Co-op Travel in the UK on behalf of holiday makers.

Leeds Co-op Travel is backing an Office of Fair Trading enquiry into the high costs of holiday cancellations. Four tour operators are currently facing legal action after refusing to give the OFT an explanation of why UK holidaymakers pay such high cancellation charges - up to 90% of the total cost.

"We agree with the Office of Fair Trading and are prepared to provide them with examples," says Paul Daley, General Manager of Leeds Co-op Travel, the city area's largest independent travel agency. "The tour operators are wrong - their charges are excessive ... (and) it's an unjust charge which does not represent the real cost to an operator who can have up to a year to resell the holiday. But travel agencies won't stand up to them because the main tour operators own them. Our independence means we can take the side of the consumer ... and do!"

Lord mayor joins co-op equality campaign for holidaymakers

*The Lord Mayor has become the first person to sign Leeds Co-op's petition against the travel industry's controversial **single person hotel and flight supplements**. Next week a new campaign by the Co-op, a long-time opponent of single supplements, launches a fresh attack on the practice of loading extra holiday costs onto single people... simply for being single.²⁶*

b) Stimulus to creativity

We saw in our above discussion of member empowerment that small discussion groups played a key role in developing new co-operatives. Sharing ideas and information with a group make it easier for us to come up with creative ideas for designing an organisation to meet our needs. Many co-operatives have developed from small discussion groups. As we saw above, discussion groups were the source of the entrepreneurial ideas which shaped the highly successful co-operative movements which

²⁶ Press releases from Leeds Co-op Travel. Circulated by Email on Co-op Net info@total.coverage.co.uk January 15,2001

spread throughout Scandinavia and Atlantic Canada. Study groups are still used throughout Scandinavia as an educational tool and a means of initiating social change (see Appendix 2 for a summary of the Study Circle methodology).

c) Cutting the costs through mutual aid

Collective solutions developed through mutual aid are often demonstrably less costly and of higher quality than individual solutions. (Box 5.6 gives some examples of how mutual aid produces cost-effective solutions to transportation problems)

Box 5.6

MUTUAL AID and transportation needs

The transportation needs of rural people can be met *individually* or *collectively*.

Individually, they can be met by buying cars, a method that is beyond the resources of the poor and the elderly.

Collectively, we could set up much more cost-effective alternatives such as social car schemes or, with the help of neighbouring villages, we could operate co-operative bus services. See also the car-sharing co-ops, which are springing up all over Europe. They have reduced members' transportation costs, while providing access to a range of vehicles to suit the varying needs of different types of journeys, e.g., short distances alone, long distances with the whole family; moving furniture (see Box 2.1 above). Alternatives such as these are more cost-effective and environmentally friendly than the individualistic approach.

Reducing the cost of long distance shopping

Another collective way of meeting access problems in remote areas is to combine with one's neighbours to pool shopping orders, thereby reducing the cost of home deliveries and the costs of shopping by buying in greater bulk.

d) Mutual aid – a different kind of competition

A new generation of businesses is finding that they can compete in the marketplace by offering consumers ethical options. An electricity company called **Unit(e)** is selling electricity which costs consumers more, but guarantees that its power comes from renewable sources.

A new gas company called **Equigas** has designed its pricing structure to help its less wealthy customers by charging all its

customers a flat rate, however they pay their bills. This approach was designed to help the poorest consumers who pay the most for their gas because they use pre-pay meters and don't have access to a bank account; direct debit customers, on the other hand, typically enjoy substantial discounts.

Equigas charges a flat rate tariff which gives a meter customer an average saving of £3.50 per month, whereas the direct debit customer pays an average of £2.00 a month more. Richard Thomas, a director of Equigas claims that research has revealed a substantial willingness from consumers to opt for such ethical schemes. "We compete on the basis of fairness and equity rather than on price."

The Phone Co-op is a rapidly growing Oxfordshire co-op, which applies co-op principles to discount phone services. Not only do user-members enjoy substantial discounts on their phone calls, they can also share in the profits. Some of the profits are distributed as refunds to members on the basis of their phone use, but some are allocated as grants to charities/voluntary organisations. Members currently enjoy discounts of 33% on daytime national phone calls. More dramatic savings are possible as the business grows.

Box 5.7

Competing by doing good!

There is a rather intriguing irony that the deregulation of energy markets, which at the time was attacked by many as a piece of crotch-thrusting free enterprise, is now being used by social marketers as a way of offering a different kind of competition.

Sean Coughlan²⁷

e) Trustworthiness as a competitive advantage

Francis Fukuyama has argued that *trust* is a key factor in economic development and is crucial for the effective functioning of the information economy of the 21st Century.

*A high-trust society like Japan created networks well before the information revolution got into high gear; a low-trust society may never be able to take advantage of the efficiencies that information technology offers.*²⁸

²⁷ Sean Coughlan, "It's power to the people." *The Guardian: Jobs & Money supplement*. February 26, 2000.

²⁸ Francis Fukuyama. *Trust: The Social Virtues and the Creation of Prosperity*. London: Penguin Books, 1996, p.26.

He defines *trust* as follows.

*Trust is the expectation, that arises within a community, of regular, honest, and cooperative behavior, based on commonly shared norms on the part of other members of that community. These norms can be about deep “value” questions like the nature of God or justice, but they also encompass secular norms like professional standards and codes of behavior.*²⁹

Trust is an essential prerequisite for the development of *social capital*, defined by Fukuyama as “the ability of people to work together for common purposes in groups and organisations.”³⁰

Box 5.8

More on Social Capital

The term “Social Capital” was first coined by sociologist James Coleman.³¹ The following is Fukuyama’s summary of Coleman’s key ideas.

*The concept of human capital, widely used and understood among economists, starts from the premise that capital today is embodied less in land, factories, tools and machines than, increasingly, in the knowledge and skill of human beings. Coleman argued that in addition to skills and knowledge, a distinct portion of human capital has to do with people’s ability to associate with each other, that is critical not only to economic life but to virtually every other aspect of social existence as well. The ability to associate depends, in turn, on the degree to which communities share norms and values and are able to subordinate individual interests to those of larger groups. Out of such shared values comes trust, and trust, as we will see, has a large and measurable economic value.*³²

Where do co-operatives fit into this discussion on trust and social capital? Clearly, the business that is seen as *trustworthy* ought to have a competitive advantage over those whose customers view them with suspicion. The business that inspires trust ought also to be more effective at building *social capital*, which, according to Fukuyama, is an essential ingredient of economic success. Arguably, a business based on mutual aid by and for the users of

²⁹ *Ibid.*, p.26.

³⁰ *Ibid.*, p.10.

³¹ James S. Coleman, “Social Capital in the Creation of Human Capital,” *American Journal of Sociology* 94 (1988)

³² Fukuyama, *Op. Cit.*, p.10.

the business is more likely to be seen as trustworthy by other would-be users.

Recent Canadian research suggests that consumer co-operatives in Canada are indeed seen as more trustworthy than conventional firms. According to Webb,³³ the vast majority of Canadian consumers expressed positive attitudes toward the values and principles of co-operation.³⁴ More than 30% went so far as to say that they would be prepared to pay a little more to shop at a co-operative.

f) Marketing advantages

Webb also points out that consumers have a favourable view of co-ops (including credit unions) in spite of their failure to invest in marketing their unique values and special relationships with users. He argues that co-operatives are in an excellent position to capitalise on two widely acclaimed marketing concepts: i) Relationship Marketing and ii) Character Marketing.

- ***Relationship Marketing*** is about creating a relationship between a business and its customers, thereby building loyalty and market share. Examples of relationship marketing include store loyalty cards, and frequent flyer points.
- ***Character Marketing*** is about convincing customers that a business has a *good character*. More and more businesses are trying to convince us that they are environmentally friendly, defenders of human rights, pillars of the community, concerned about our health, and so on.

Webb maintains that co-ops should be in an unrivalled position to develop unique selling points (USPs) in terms of relationships and good character. He goes on to argue that while most businesses are focused on only one *bottom line* (maximising returns on investor capital),

“co-ops have multiple bottom lines focusing on values people consider important. Such values include trust, community support, democracy, justice and fairness. Co-operatives are blessed with two USPs, their ownership structure and the values they hold. These unique selling

³³ J. Tom Webb, “Marketing Co-operation in the Global Economy,” *Review of International Co-operation*, Volume 91, No. 1, 1998, pp.92-95.

³⁴ Of course, we cannot generalise too far from this piece of research. Attitudes toward co-operatives are influenced by previous experience with them and would be very different in a country where, for example, co-ops had been seen as an instrument of the state.

points would be difficult to match without becoming a co-operative."³⁵

Box 5.9

The Co-op Bank: Profits through principles

In 1991 the UK's Co-op Bank circulated a draft Ethical Policy to 30,000 of its customers. 84% of those surveyed thought it a good idea for the bank to have a clear ethical policy. Consequently, the Bank drew up an Ethical Policy Statement containing all items that were supported by at least 60% of those surveyed.

In 1994, the exercise was repeated with all 500,000 of the Bank's personal customers. Support rose to 91%, with no individual issue polling less than 80%.

The detailed Ethical Policy includes issues relating to human rights, the arms trade, currency speculation, environmental impact, fair trade,

Turning unethical business away

All new business customer applications are screened against a set of strict criteria, with difficult decisions referred to an Ethical Policy Unit, which has found that 23% fall short of the Policy's demands. The Bank has refused to do business with those unable or unwilling to abide by the Policy.

In spite of this policy, the Co-op Bank reported record first half pre-tax profits in September 2000 of £55 million, up by 10%.³⁶

Trust and the Internet

Co-operative values should be particularly advantageous in the field of Internet businesses. Malcolm Corbett argues that the Internet and electronic commerce could lead to a whole new era of growth for co-operatives.³⁷ He cites a recent best-seller, *Net Gain: expanding markets through virtual communities*,³⁸ which argues that power will shift dramatically from the producers of goods and services to the customers who buy them.

³⁵ *Ibid.*, p. 94.

³⁶ Co-op Bank Press Release, September 7, 2000. From we site www.co-operativebank.co.uk.

³⁷ Malcolm Corbett, "Net Gain for Co-ops." *Review of International Co-operation*. Volume 92, No. 1, 1999. Corbett is the Marketing Director of Poptel Internet, a worker co-operative.

³⁸ John Hage & Arthur G. Armstrong, *Net Gain: expanding markets through virtual communities*. Boston: Harvard Business School Press, 1997.

Box 5.10

Marketing trustworthiness

In travel, financial services and undertaking - three big Co-op businesses - there must be many people who would like to feel that they would be happier dealing with a company interested in serving its customers rather than its shareholders. And as the state pulls back from providing, for example, residential care, housing and pre-school education and childcare, there are enormous opportunities for businesses that reflect co-operative values of honesty and trustworthiness, combined with a modest profit-making ambition.³⁹

Marketing products you can Trust

***I Prodotti con Amore COOP** - (The Products with Love CO-OP)
By making trust the central focus of its marketing, Coop Italia has made its co-operative nature the mainsail driving its success. The standards for these labels have been defined with member participation. Co-op Italia sees its role as meeting member need not pushing product.⁴⁰*

5.2 The Competitive Advantages of Co-operative Principles

In the first section of this chapter, we considered at length some of the competitive advantages of the co-operative way of doing things (*activation of users, mutual aid and design for use*). In this section, we shall briefly revisit the seven co-operative principles which define the essential features of a co-operative organisation, and which have helped shape the legislation governing co-operatives around the world. We shall explore how the principles might reinforce the competitive advantages discussed above. (Please note: the full text of these principles, as defined by the International Co-operative Alliance, can be found in Appendix 1 of this book).

1st Principle: Voluntary and Open Membership

This principle ensures that the co-operative is owned by the people who use its services. It does this by requiring that membership of

³⁹ Christopher Hird. "Making co-operation competitive." *Red Pepper*, November, 2000.

⁴⁰ This quotation is taken from www.global-co-operation.com. For more information on the rigorous quality standards of *I Prodotti con Amore COOP* check the following web site http://www.coopne.it/prodotti_marchio_coop/prodotti-con-amore.htm

co-operatives be “*open to all persons able to use their services and willing to accept the responsibilities of membership.*”

This suggests that co-operatives are more likely to focus on their target group of stakeholders in a holistic way. In other words, co-ops will be more inclined to address the whole range of needs of a substantial group of stakeholders (producers, consumers, workers or communities), instead of focusing narrowly on the financial needs of a small elite of investors. As we have seen in Chapter 2, the member-stakeholders served by co-operatives are unlikely to be the top priorities of conventional organisations, giving the co-operative a potential competitive edge.

2nd Principle: *Democratic Member Control*

Because members have one vote each and one vote only, regardless of the amount of money invested in the co-operative, every member-stakeholder has an equal say at annual general meetings and in the election of boards, ensuring that control remains within the stakeholder group. The fact that member-stakeholders control the co-operative puts them in a position to ensure that the co-op is tailored to meet their needs.

The fact that the organisation is owned and controlled by users’ interests, is likely to build trust in the co-operative. The co-operative’s trustworthiness and the priority it gives to user needs, provide it with a Unique Selling Point (USP) which cannot easily be matched by other organisations.

3rd Principle: *Member Economic Participation*

Unlike conventional businesses, the success of a co-operative is measured by the extent to which it has addressed the needs of its member-stakeholders, not by the return on invested capital paid to outside investors.

When profits are distributed in proportion to members’ use of the business, members are given an additional incentive to use the co-operative’s services.

4th Principle: *Autonomy and Independence*

This principle ensures that the co-operative does not become dependent upon non-members for the provision of capital. This safeguards the interests of the members by ensuring that the co-op continues to focus on their needs.

5th Principle: Education, Training and Information

In a very real sense, this principle is the lynchpin of the whole set. Without it, nothing else will work properly. This principle is intended to do a number of things, in particular:

- to ensure that members have the knowledge and skills to participate meaningfully and effectively in their co-operative;
- to encourage the co-operative to promote itself through information about the tangible benefits that it provides to its users (it is not enough for the co-op to *do* good things, it must also make sure that people *know* about the good things it does).

6th Principle: Co-operation among Co-operatives

This principle encourages co-ops to look for opportunities to work together with other co-operatives to their mutual benefit. The rapid growth of the early consumer co-operatives in Britain would not have happened if they had not co-operated with one another. Established co-ops helped neighbouring communities set up their own co-ops and, to develop economies of scale, they worked together to set up second-level wholesaling and manufacturing organisations. This pattern of co-operation between co-ops has occurred in every successful national co-operative movement.

The possibility of co-operating in this way provides a number of competitive advantages. E.F. Schumacher once argued that the fundamental task in the management of large-scale organisations is “*to achieve smallness within large organisations.*”⁴¹ The seventh co-operative principle provides a strategy for doing exactly what Schumacher recommended. In addition to enjoying *the advantages of being big* (e.g., by securing economies of scale from co-operating on joint ventures and co-operatives of co-ops), they can also retain *the advantages of being small*, (e.g., knowledge of the local community, being able to respond quickly and flexibly to local needs).

7th Principle: Concern for Community

This principle underlines the priority co-operatives give to the broader needs of the local community. Application of this principle demonstrates the co-operative difference and builds the trust and loyalty of community members.

⁴¹ E.F. Schumacher, *Small is Beautiful: A Study of Economics as if People Mattered*. London: Abacus, 1974, p.202.

Chapter 6

Management in a co-operative setting

Beware of co-operatives that believe that enthusiasm is a substitute for adequate capitalisation, technology and planning. Jose Maria Arizmendiarieta

The pursuit of viability, combined with the pursuit of higher social aims, produces many dilemmas, many seeming contradictions, and imposes heavy burdens on managers. E.F. Schumacher⁴²

The strength of the idea of private enterprise lies in its terrifying simplicity. It suggests that the totality of life can be reduced to one aspect – profits. E.F. Schumacher⁴³

So far we have been talking about the competitive *advantages* of the Co-op Idea and Co-operative Principles. In this Chapter we shall look at some of the problems and *dilemmas* which can raise their ugly heads when we are trying to manage this very different kind of business. We shall also be looking at how successful co-operatives manage these dilemmas and often manage to turn them into advantages.

6.1 The dilemmas of management

It has been argued that all management is the management of dilemmas.⁴⁴ But what exactly is a dilemma? According to one dictionary definition, a dilemma is:

*A situation in which you must choose between two or more courses of action, both (or all) equally undesirable.*⁴⁵

“To be or not to be,” was the dilemma Shakespeare put into Hamlet’s mouth. Should the Prince of Denmark live on in an intolerable situation, or should he escape from it all by killing himself – both very undesirable options? In organisations,

⁴² *Op.cit.* Schumacher, p.212.

⁴³ *Ibid.*, p.213.

⁴⁴ Charles Hampden-Turner. *Charting the Corporate Mind*. Oxford: Basil Blackwell, 1991.

⁴⁵ *Chambers 21st Century Dictionary, Revised Edition*. 1999

managers are constantly confronted with dilemmas, though usually somewhat less drastic than Hamlet's. Here is a classic example.

Centralise or decentralise?

Should we *centralise* part of the business and make it more orderly and predictable (but at the risk of stifling initiative) or should we *decentralise* it and encourage entrepreneurship and creativity (at the possible expense of disorder and lack of control)?

6.2 Dilemmas of conventional firms

Before we start looking at the kinds of management dilemmas that are more commonly found in co-ops, let's look first at some of the dilemmas afflicting conventional business. ***The competitive pressures to serve rich investors ahead of other more needy stakeholders, are at the root of the dilemmas of conventional Firms. Consider the following problems.***

Cut costs or maintain standards?

Should we keep costs as low as possible to remain competitive while providing a good return on investment to our shareholders? Should we do this even though it may mean cutting our work force, moving toward part-time work forces, relocating to lower wage areas where child labour can be employed and they are less fussy about environmental impact? Should we cut costs even if it means undermining the viability of local communities or ignoring environmental and health needs?

Short-term focus or concern for the future?

Should we focus single-mindedly on short-term profits to keep our shareholders happy? Should we do this even if it means producing what is profitable, regardless of the impact on society, and/or disposing of toxic by-products, etc., as cheaply as possible? Should we do this even though the consequences might include severe environmental degradation, unsustainable production, and or increasing inequality?

Former Harvard Business School Professor, David C. Korten gives a breath-taking catalogue of the dilemmas of conventional businesses.

Modern capitalism involves a concentration of wealth by the few to the exclusion of the many; it is more than a system of rule by human elites. It has evolved into a system of autonomous rule by money for money that functions on

autopilot beyond the control of any human actor or responsiveness to any human sensibility. ...Democracy and markets are wonderful ways of organising the political and economic life of a society to allocate resources fairly and efficiently while securing the freedom and sovereignty of the individual. But modern capitalism is about using money to make money for people who already have more of it than they need. Its institutions breed inequality, exclusion, environmental destruction, social irresponsibility and economic instability while homogenising cultures, weakening institutions of democracy and eroding the moral and social fabric of society.⁴⁶

Resolving the dilemmas of conventional firms

As a strategy for resolving the dilemmas of conventional business, he recommends an economic system, which appears to have much in common with the concept of the co-operative.

The challenge is to replace the global capitalist economy with a properly regulated and locally rooted market economy that invests in the regeneration of living capital, increases net beneficial economic output, distributes that output justly and equitably to meet the basic needs of everyone, strengthens the institutions of democracy and the market, and returns money to its proper role as the servant of productive activity. ...It should favour smaller local enterprise over global corporations, encourage local ownership, penalise financial speculation and give priority to meeting the basic needs of the many over providing luxuries and diversions for the wealthy few. In most aspects it should do exactly the opposite of what the global capitalist economy is doing.⁴⁷

6.3 Dilemmas of co-operative management

We have examined some of the dilemmas afflicting conventional firms, but what of the dilemmas involved in managing a co-operative? There are a number of business management problems that might confront a manager trying to abide by the Rochdale Principles. The main management problems posed by the Principles include the following.

⁴⁶ David C. Korten, 1998. "Your mortal enemy." *The Guardian*, Wednesday October 21, 1998.

⁴⁷ *Ibid.*

Raising finance or rewarding members according to usage?

One of the most serious dilemmas of all is how to raise adequate business finance while observing co-operative principles. The principles stipulate that *only a limited rate of return can be paid on capital* and that *profits should be distributed according to use of the business* (rather than on the amount of capital invested). This will make co-operatives less attractive to people with money to invest. As a result, co-operatives may have more problems raising adequate capital. This could be a particular problem for worker co-ops where the investment required per member will tend to be higher than in other kinds of co-operative.

Because of the above problems, co-operatives will be more dependent (compared with conventional firms) on *debt capital* than on share capital (*equity capital*). This will increase the riskiness of the co-op because of the costs of servicing this additional debt.

Democratic control or efficient management

Many people conclude (mistakenly) that democracy is not compatible with sound business management. They might argue that democratic control would be beset by the following kinds of problems:

- a possible lack of confidentiality in decision-making processes;
- slowness in reaching decisions;
- the possibility that major decision-making power may be in the hands of people who do not understand the realities of running a business;
- the possibility that directors might be elected on the basis of their popularity rather than their business acumen.

Openness dilemmas

The requirement that anyone who can make use of a co-op's services should be free to join and share in the benefits of a co-op can create dilemmas in some kinds of co-operatives. Successful worker-owned co-operatives are the type of co-op most likely to be confronted with dilemmas resulting from *Openness*.

In a worker co-op, for example, any permanent employee in the co-op is entitled to become a member. But put yourselves in the shoes of a long-term member of such a co-op. Let's assume you are one of seven founding members who have worked for the co-op since it opened doors for business. You have laboured long hours for low wages to build the successful business you own today. You have just hired five new, inexperienced workers. How enthusiastic will you be about admitting them to full membership of the co-op once their probation period has been served? You

currently own one seventh of the business. If you admit these five newcomers to membership, you will own only one twelfth of the business and will have to put up with a correspondingly smaller share of the profits. You will be giving them a large chunk of your business, a business that has been built by the hard work of the founding members.

Admitting new members means that the old ones will be *diluting their equity*, that is, their share of the business will shrink alarmingly. It is not surprising that people in this situation are often unwilling to admit new workers to full membership. They may decide instead to turn their co-op into a conventional company, or may even refuse to hire new people and keep the business small. The dilemma here is as follows.

Should we protect our investment and stop admitting new members, or should we operate a principle which protects the fundamental co-operative nature of our business?

The fear of equity dilution is a management problem that can afflict successful co-ops, hampering their growth and leading to stagnation and ultimate failure.

Other dilemmas posed by Success

There are other problems confronting successful co-operatives. For example, when a co-operative is highly successful as a business, the real value of the business is often allowed to increase much more rapidly than the value of the members' shares. This means that members will get more and more unhappy about the gap between the relatively meagre value of their shareholding and the value of the business. As a result they will be increasingly inclined to sell up all or part of the business or convert it to a conventional company in order to realise the full market value of their shareholding.

This is one of the factors underlying the current tendency for some of the longer-established mutual organisations (like building societies and mutual insurance societies) to demutualise. It is also a factor in the setting up of public limited companies (PLCs) by some of the major Irish dairy co-operatives.⁴⁸

⁴⁸ How to resolve this set of dilemmas is explained comprehensively in R.E. Jacobson and C. O'Leary. 1990. *Dairy Co-op Issues in Ireland: with special reference to PLC activities*. University College Cork: Centre for Co-operative Studies.

6.4 Resolving the dilemmas of co-operative management

Schumacher has some advice for us on how to go about resolving dilemmas.

*Whenever one encounters such opposites [as **centralisation** and **decentralisation**], each of them with persuasive arguments in its favour, it is worth looking into the depth of the problem for something more than compromise, more than a half-and-half solution. Maybe what we really need is not either-or but the-one-and-the-other-at-the-same-time.⁴⁹*

Schumacher, is hinting that many of the dilemmas we wrestle with in life are in fact *false dilemmas*. In most cases, we don't have to make do with a compromise; we can instead get the best of both worlds. Using our imagination, we can find ways to enjoy the benefits of *size* while staying *small*; we can get the advantages of *centralisation* while remaining *decentralised*.

In other words, it is not a question of having to choose *either-or*. Our aim should be to achieve *the-one-and-the-other-at-the-same-time*.

Co-operatives resolve the dilemmas of conventional business

The co-operative form of organisation is one approach to resolving the dilemmas of conventional business. In the field of business, it often enables us to get the best of both worlds. The co-operative provides a business structure and a process which enable us to meet our economic and social needs without the negative side-effects inherent in conventional approaches to business (as outlined by David C. Korten above).

So, when it comes to managing the dilemmas of co-operatives, as discussed in section 6.3 above, we need to follow Schumacher's advice and look *into the depth of the problem for something more than compromise, more than a half-and-half solution*. We need to seek out the-one-and-the-other-at-the-same-time.

Let's revisit some of the dilemmas outlined in 6.3 above and see how co-ops have often managed to get the best of both worlds.

⁴⁹ Schumacher, Op. Cit., page 202.

6.5 Resolving financial dilemmas

Perhaps the most troublesome dilemmas confronting co-operatives have involved financial problems. How can a co-op raise the funds needed to run the business when it can pay only a limited return to investors? Why should anyone choose to invest money in a co-op when profits are distributed, not on the basis of capital invested, but according to use of the co-op's services?

If we look at this problem as an either-or dilemma, we have only two choices, suffer the consequences of inadequate funds or convert the co-operative into a conventional business, a PLC. There are plenty examples of co-op managers and directors who have plumped for one or other of those unpleasant and unimaginative alternatives. You will find co-operatives that are struggling on a shoestring, starved of the money needed to provide members with quality services. You will also find co-ops that have demutualised, turned themselves into investor-driven companies, to raise funds on the money markets.

Both of these responses are self-defeating. The former remains true to co-operative principles but ends up with an inferior business that offers inadequate services and gives co-ops a bad name. The latter response has thrown the baby out with the bath water. To raise funds, it has lost the opportunity to serve more needy stakeholders rather than rich investors, and the business is now increasingly subject to the serious dilemmas confronting conventional companies (as outlined in 6.2 above).

However, most co-operatives have found ways of resolving these dilemmas. Some of their strategies are as follows:

- Make sure that the co-op is *designed to provide services which are in great demand*, and that there are *tangible benefits* for members (such as *services unavailable to non-members*, or a *share in the profits according to use*). These actions will help to motivate members to invest adequate funds.
- Distribute profits in the form of *bonus shares*, which have to be retained within the co-operative for an agreed period of time. The period of retention is agreed at an Annual General Meeting and may vary from a specific period, such as ten years, or until the member leaves the co-operative. This approach enables the co-operative to reward members for their use of the co-op, while continuing to have the use of the allocated capital. This

tactic also lessens the disparity between the value of the business and the value of members' individual share-holding, thereby addressing one of the main causes of demutualisation.

- Many co-ops raise adequate capital by requiring a more substantial investment. Many producer co-ops raise capital by requiring an investment in proportion to the member's use of the business. New Generation Co-ops in the American Mid West have been very successful at raising money from farmers. They require substantial investments from would be members, and members are happy to invest because of the profit potential of the business. Some worker co-ops, require a substantial initial investment from members, but help the worker find the money by guaranteeing a loan, which is repaid in instalments from wages earned at the co-op.
- To ensure adequate financing, some have set up their own banking system. Note in particular the Mondragon Co-operative Corporation (see section 6.7 below) and the substantial co-operative banks in Europe and the USA.
- Some have co-operated with the credit union sector (the Desjardins Credit Union Movement in Quebec has been particularly active in co-operative development.)
- In order to finance new developments, some co-ops have set up joint ventures as subsidiaries. Such ventures may be jointly owned by co-ops or may involve non-co-operative partners.
- More controversially, some co-operatives allow members to sell their shares of the business at current market value to other member-users of the business. This allows for a degree of capital growth, which makes the investment more attractive to the member (the New Generation Agricultural Co-ops, mentioned above).⁵⁰

Resolving dilemmas of democracy

If ever there was a false dilemma, it is the notion that democratic control is incompatible with efficient management. Perhaps it all depends upon how you define *democracy*. If you mean that all members must be involved in taking every decision, then you do have a system which is likely to be inefficient as soon the number members exceeds about a dozen. Larger organisations can implement democratic control through a system of representative democracy, with different kinds of decision being delegated to different groups of people under the overall supervision of a board

⁵⁰ See also the new generation of Irish worker co-ops promoted by the Co-operative Development Unit of FÁS. See Chapter 3 in Briscoe and Ward (eds.) 2000.

of directors, elected and reviewed by the total body of the membership.

Indeed, far from being a liability, democracy can be a competitive advantage, as we have seen in sections 5.1 and 5.2 above. Democratic control has often been assumed to be most problematic in worker-owned co-operatives, where workers appoint and supervise the people who are supposed to supervise the workers! But, consider the following.

Since workers [in a worker co-operative] own their own enterprises they share directly in the success as well as the failure of the firm. This not only produces strong personal incentives to be productive, but also considerable peer pressure on colleagues to do their share. Furthermore, it contributes to low rates of worker turnover and absenteeism when compared to capitalist firms.⁵¹

In short, worker co-ops ought to be able to reduce significantly what the economist Leibenstein calls X-inefficiency, that is, the conflict and loss of worker motivation which stem from the divergence of interests between labour and capital in conventional firms. Indeed, a worker-owned business has the additional cost advantage in that it can dispense with the layers of supervisory management, which do little but police the workers in conventional organisations.

To add further support to the claims for democratic workplaces, there is a growing body of evidence about the power of worker participation (in both decision-making and profit-sharing) in conventional firms. A British study compared 113 profit-sharing companies with 301 non profit-sharers. The economic performance of the profit-sharers was significantly superior in terms of profitability, growth and investor returns.⁵² A survey of American research cited 188 studies and experiments showing significant positive relationships between employee participation and productivity.⁵³ Strauss, in a review of worker participation in management, emphasises the value of participation as a means of *effecting compromises, developing consensus and legitimating*

⁵¹ R. Jackall & H. M. Levin, "Obstacles to the survival of democratic workplaces," in Jackall and Levin (eds.) *Worker Co-operatives in America*. Berkeley: University of California Press. 1984, page 7.

⁵² D. W. Bell & C. G Hanson, *Profit sharing and profitability: how profit sharing promotes business success*. London: Kogan Page.

⁵³ J. Simmons & W. Mares, *Working Together*. New York: Alfred Knopf. 1983 page 247, seq.

decisions.⁵⁴ Influential researchers-cum-consultants, like Rosabeth Moss Kanter and Peters and Waterman are citing the empowerment of the organisational grass-roots as one of the key characteristics of those excellent companies which are able to keep pace with a rapidly changing world. In a similar vein, more and more commentators are attributing much of the success of Japanese industry to its ability to involve workers throughout the organisation in decision-making and problem-solving. Indeed, a recent management text has proclaimed this as the *Age of Participation!*⁵⁵

6.6 Resolving dilemmas of finance, openness & success⁵⁶

Perhaps the most famous example of co-operatives, which have successfully resolved the gamut of dilemmas, is the Mondragon group of about 130 worker and multi-stakeholder co-operatives in the Basque region of Spain.

Largely through trial and error they have developed new versions of worker and multi-user co-ops, resulting in a highly successful network of industrial, retail and educational co-operatives which has sprung up over the last 45 years in and around the Spanish town of Mondragon. The story of Mondragon has often been told, but it is probably worth giving a brief synopsis of it here.

The town of Mondragon is in the Basque region of northern Spain, remote from the main population centres and in an area that used to be severely depressed and underdeveloped. The first of the Mondragon co-ops was started in 1956, a modest venture assembling Aladdin paraffin stoves under licence. By the beginning of the year 2000, the group was providing 46,861 well-paid jobs in some 130 large scale co-operatives.⁵⁷

Worker co-ops in most parts of the world are labour-intensive, usually suffering from an acute shortage of investment funds. In Mondragon, things are very different. The typical worker co-op is

⁵⁴ G. Strauss, "Worker participation in management: an international perspective," in L.L. Cummings & B. M. Staw (eds.), *Leadership, partnership and group behaviour*. Greenwich, Connecticut: Jai Press Inc. 1990.

⁵⁵ P. McLagan & C.Nel. *The Age of Participation: New Governance for the Workplace and the World*. San Francisco: Berrett-Koehler. 1997.

⁵⁶ This section is adapted from R. Briscoe, "Making worker co-operatives effective in the South Pacific." *The Journal of Pacific Studies* Volume 16, pp. 28-45.

⁵⁷ Annual Report 1999 of the Mondragon Co-operative Corporation. See www.mcc.com.es

a capital-intensive factory engaged in the production of consumer durables, refrigeration equipment, or capital goods.

The Mondragon system is serviced by a co-operative bank, with branches throughout the region, a co-op industrial health care and social benefits centre, a co-op research laboratory, a co-operative technological university and a business school (where you can study for a co-operative MBA).

At the unique university, students not only learn the technical know-how and skills they need to be productive members of the Mondragon system, they also operate their own manufacturing co-op (owned and democratically controlled by students and staff). At this co-op, they not only get valuable on-the-job experience, they also learn how to manage and run a co-operative. At the same time they can earn enough from their co-op to pay their way through college.

Economic studies have shown that the Mondragon group has consistently out-performed conventional Spanish businesses,⁵⁸ and the group manages to export between 25 and 30 per cent of its output.

The Mondragon modifications

Let us examine how the Mondragon workers have modified the concept of the worker co-operative, and how these adaptations have enabled them to overcome many of the dilemmas and problems outlined in this module. The following practices of Mondragon's primary manufacturing co-ops seem to be particularly significant.

1. All workers must be members

After a short probationary period, all workers are required to join the co-operative. Workers who quit their jobs cease to be members and must withdraw the capital they have accumulated during their employment.

⁵⁸ See for example Bradley, K. and A. Gelb, 1983. *Co-operation at work: the Mondragon experience*, London: Heinemann; H. M. Levin, 1984 "Employment and productivity of producer co-operatives," in Jackall and Levin (eds.) *Worker cooperatives in America*, Berkeley: University of California Press (16-31); and Morrison, R., 1991, *We build the road as we travel*, Philadelphia: New Society Publishers (167-182).

2. Substantial initial investment

When workers join, they must subscribe a substantial sum of money. If they join an existing co-op, their initial investment will be something in the order of £2,000 - £4,000; and it will be about twice that amount in a new-start co-op. This initial investment does not have to be found all at once. There are usually arrangements for paying the amount in instalments out of earnings (a scheme facilitated by the Caja Laboral Popular - Mondragon's co-operative bank).

3. Individual capital accounts (ICAs)

Each member has an ICA, into which is paid the initial investment plus the member's share of those profits which were distributed at the end of each year of his/her employment. Members are not allowed to withdraw money from their ICA until they leave the co-op, and then they **must** withdraw their capital. If members are retiring, or leaving for health reasons or to work in another Mondragon co-op, the full amount is refundable. If they are leaving for other reasons, up to twenty per cent of their investment may be retained by the co-op. Savings bank rates of interest are paid on the amounts in ICAs, and periodic adjustments are made to compensate for inflation if the financial condition of the co-operative permits.

4. Distribution of profits

In a Mondragon co-op, distributed profits are allocated to workers in proportion to their wages (see Rochdale principle number four in Section 1 of this module). Distributed profits are paid directly into workers' ICAs and cannot be taken as cash. Withdrawal of money from ICAs is restricted as outlined in (3) above. There are also clearly stated restrictions as to how much of the profit can go directly to the workers' accounts. Profits must be divided up as follows.

- No more than 70% of annual net profits may be distributed to the workers' ICAs.
- At least 20% must go to collective reserves, which are not withdrawable.
- At least 10% must be spent on social services to benefit the community as a whole - services such as health, education and recreation projects.

If the co-op should make a loss, at least 70% of the loss must be withdrawn from ICAs, and not more than 30% from collective reserves.

5. Equitable salary scales

To cement the feeling that *we are all in this together*, the range of salaries is deliberately restricted. Originally, the highest paid worker could not normally be paid more than three times the lowest paid. The exception to this was that senior professional staff could earn supplements of up to fifty per cent of their salary for special responsibilities and long hours (resulting in an effective salary range of up to four and a half times the lowest paid). In recent years, since about 1992, this range has increased to six times the lowest. This has been done to ease problems in recruiting professional expertise.

Management dilemmas revisited

How do these modifications to the co-operative concept address the management problems discussed throughout this module?

i. Managing a democracy

The Mondragon success story demonstrates that democracy is not necessarily at odds with efficient business management. Management can be efficient within a democratic setting given the following kinds of practices:

- the design of appropriate representative structures to manage the decision-making and evaluation tasks of the organisation
- distinguishing carefully between *policy issues* and *implementation issues*
- appropriate delegation of management functions
- the use of suitable styles of decision
- the use of measurable goals, and procedures to enable the Board to monitor and evaluate performance in key result areas.

ii. Raising finance

Whereas most worker co-operatives in Ireland and Britain tend to be labour-intensive and starved of capital, the Mondragon co-ops are technologically sophisticated and relatively capital-intensive. They have found ways of raising adequate equity and debt capital at reasonable cost and without violating Co-operative Principles.

- The Mondragon system meets some of its capital needs by requiring a major financial commitment from would-be worker-members. Not only does this bring in a good deal of capital, it also increases the individual worker's determination to ensure that the co-operative succeeds.
- Distributed profits are *retained* in individual accounts (ICAs) and are therefore also available to meet a co-operative's investment needs.

- There is a requirement to allocate a fixed minimum proportion of profits (20 per cent) to *collective reserves*.
- The Mondragon co-operatives have developed their own community-based savings bank, which funnels investment funds into the co-op network.

iii. Surviving success

The Mondragon model brilliantly resolves the dilemma of *equity dilution*. In Mondragon, the requirement of a *substantial initial investment* plus the concept of *individual capital accounts* (ICAs) go a long way to solving the problem of equity dilution, which has bedevilled worker co-ops. In the Mondragon system, a new member does not dilute the individual equity shares of other members. Their shares are carefully preserved in their own ICA. Far from diluting the equity of existing members, the new member brings in additional new capital. Moreover, new members make no claims against the capital accumulated by individuals in the past. Their only claims are on the profits distributed during their own term of employment. The American economist, David Ellerman,⁵⁹ argues that the Mondragon co-operators have solved the dilemma by implicitly drawing a distinction between *membership rights* (voting rights + economic profit rights) and *conventional share rights* (membership rights + net book value).

Not only does the Mondragon approach resolve problems of equity dilution, it also addresses another set of problems which has led to the demutualisation of co-ops. Thanks to the concept of the individual capital account and the retention of allocated profits during the working life of a shareholder, the value of shares held by members provides an adequate reflection of the value of the co-operative's assets. As a result, there is little temptation to sell off the co-op in order to realise the full value of members' equity shares.

⁵⁹ Ellerman, D. P., 1990. *The democratic worker-owned firm: a new model for the east and west*. Boston: Unwin Hyman. See also the discussion in Lutz, M. A. and K. Lux., *Humanistic economics: the new challenge*, New York: Intermediate Technology Development Group (Bootstrap), 1988.

6.7 Summary Conclusions

This book has attempted to develop a number of tentative conclusions about the competitive advantages of the co-operative way of doing business. We started by looking in some detail at the concept of the co-operative, the importance of the co-operative way of doing business, the principles and values which underpin its structure and the co-operative theory of action which shapes the process of running an effective co-operative.

We then attempted to draw some conclusions about the possible competitive advantages which arise from the co-operative structure and process.

The book concluded with a brief review of the oft-cited management dilemmas of co-operatives and attempted to show how successful co-operatives are able to manage those dilemmas and even turn them into competitive advantages.

A number of influential writers on strategic management have developed theories which seem to demonstrate that the very dilemmas experienced by co-operatives may, if managed effectively, be the most powerful competitive advantages of all. Ralph D. Stacy,⁶⁰ R.T. Pascale,⁶¹ and Danny Miller⁶² have all argued that successful businesses get into trouble by focusing single-mindedly on making their organisation more consistent and harmonious, and continually striving to do better what they already do well. The result is a dangerous bandwagon effect that suppresses variations, reduces flexibility and adaptability, and pushes the organisation into a dead-end.

Pascale in particular emphasises the power of dilemmas in avoiding this dead-end syndrome. He argues that organisations need to work creatively at continually identifying and resolving the *contending opposites* that confront them in their business. This task is never ending, and results in creative discoveries of new ways of doing business and a competitive edge, which is hard for competitors to match. Co-operatives are in the fortunate position of being organisational amphibians, living in both *social* and

⁶⁰ Ralph D. Stacey. *Strategic Management and Organisational Dynamics*. London: Pitman Publishing, 1993

⁶¹ R.T. Pascale. *Managing on the Edge: how Successful Companies Use Conflict to Stay Ahead*. London: Viking Penguin, 1990.

⁶² Danny Miller, *The Icarus Paradox: How excellent Organisations Can Bring About Their Own Downfall*. New York: Harper Business, 1990.

economic worlds. The conflicting demands made by these two worlds will provide a never-ending flow of contending opposites, which should stimulate creative solutions to some of the most intractable problems facing humanity. All co-operatives have to do now is learn to manage those dilemmas even more creatively than they have in the past!

The Co-operatives of Ireland is a companion volume to this book. It will build on the ideas we have discussed by exploring the activities of co-operatives in each of the major Irish sectors: Credit Unions, Producer Co-ops, Worker Co-ops, Community Co-ops, and newly developing Social Enterprises.

APPENDIX 1

INTERNATIONAL CO-OPERATIVE ALLIANCE

Statement on the Co-operative Identity

Definition:

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

Values:

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

The co-operative principles are guidelines by which co-ops put their values into practice.

1st Principle: Voluntary and Open Membership
Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
2nd Principle: Democratic Member Control
Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.
3rd Principle: Member Economic Participation
Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.
4th Principle: Autonomy and Independence
Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
5th Principle: Education, Training and Information
Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.
6th Principle: Co-operation among Co-operatives
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.
7th Principle: Concern for Community
Co-operatives work for the sustainable development of their communities through policies approved by their members.

Source : ICA News, No. 5/6, 1995.

APPENDIX 2

The Study Circle: a co-operative of learning⁶³

by Liisa Korhonen

There is a strong tradition of study circles in Finland. Originally, the study circle was a social invention. It was born in the popular movements (the workers, temperance and popular religious movements) of the Northern countries in the last century. It was based on the same principles as those movements in their early history: people were developing new capacities for themselves and enlarging their knowledge *together*, meaning to *use it together*, for their common goals.

Nowadays, “the study centres” of Finland serve the study circles by distributing general know-how on working methods, training tutors and leaders for them, publishing materials, sending them a modest subsidy from the state.

The autonomous study circle at its best is a *co-operative of learning*. That is why we in KSL decided that the groups who wanted to learn about co-operative enterprising were to learn it autonomously. The learning experience would give the groups an opportunity to test their skills of co-operation. In the beginning, the circles could obtain only a textbook and a video on co-operatives from KSL.

Recommendations for co-operative learning in a study circle:

1. Get together a small group of people who want to learn in an autonomous group.

- Why a small group? - Because in a small group it is easier for everybody to participate and get her/his personal needs met in the learning process
- Why is it important for each individual to hear the study proposal and have time to think it over? - Because they need time to develop their personal motivation.
- Why have they to be willing to learn autonomously and in a group? - Because a learning team needs participants who are willing to give and receive, to experiment and transform their knowledge by experience and co'operation; this is not possible if you need an authority to tell you what is the right answer.

⁶³ The material in this Appendix is reprinted here with the kind permission of the author, Liisa Korhonen of KSL (Kansan Sivistysliitto), Finland's Civic Association of Adult Learning. See web site: www.ksl.fi.

2. Organize the learning process by

2.1. Negotiating the goals

- If you want to be sure that people will stay in the group, it is good to *find goals that will meet the needs and values of the participants*: what do I wish to know?
- What do I wish to know better? What do I wish to do? What do I wish to do better? Is there anything I wish to change in my life, even a small thing?
- Negotiation is a process where learning is already taking place - it is essential that the group listens to everybody with interest and asks questions to maintain one's thinking aloud.

2.2 Writing a contract concerning the goals, the working principles, the idea of dialogue, the practice of reflection.

- It is good to start by asking: what does everybody mean when we use the word *learning* - and then describing together how do we notice that we have learned something and how the group can act in a way that everyone will be sure the learning is taking place.
- It is good to ask everybody, *how she/he can feel accepted by the group*, because the atmosphere of the group will make the learning dialogue either possible or impossible. Take time to find ideas about how to maintain a relaxed atmosphere.
- The agreement is put on paper (avoiding over-seriousness). It is good to check that everybody understands what it means and how she/he will benefit from it.
- In order to learn, the members need the space to reflect, they need space to make tentative experiments, ask and be asked. This requires a real need for knowledge or new skills. Learning together is not always a smooth process nor a speedy one.

2.3. Identifying various resources inside and outside the circle

- To build self-esteem for the group, it is beneficial to list the skills, experiences and know-how available in the team. This can be done by asking everybody directly or indirectly, e.g., via metaphor: "If this group were to climb a mountain, what would you personally be willing to do for the group? What would be your role?"
- The group benefits from outside tutors, people who can give ideas when the group feels stuck. To safeguard the autonomy of the group, tutors will stay outside, and give advice only when asked.
- The group needs access to sources of information in various ways: books, nets, other groups, individuals, experts - and they need to be listed in the beginning so that when the group needs encouragement it knows and remembers where to get it.

3. Maintaining the process - this is done by everyone

- Maintaining the motivation, encouraging others in an atmosphere of mutual acceptance and adventure
- Practicing the art of dialogue, making it a win-win process
- Testing the old and new ideas, old and new knowledge in practice
- Facing problems and making changes, e.g. noticing tiredness and changing timetables
- Seizing opportunities
- Recognizing and celebrating advancements, happy coincidences, hard work
- Checking how one's own and everybody else's needs are met by the process
- Having fun
- Making intelligent use of outside resources: people, books, internet, journals, art, etc.

4. Making documents, the history of the common enterprise of learning.

4.1 Writing the *learning contract* at the start: an agreement on the goals of learning and on working principles.

4.2 Documenting the changes which are made in the *contract*, to better serve the needs of the group.

4.3. Documenting the results

Documenting is part of the learning: it can be made as a "learning diary" , collectively or individually, or in any other way that will serve the group.

5. Financing

The group will plan the financing together.

(An autonomous group in Finland will get a small subsidy from the state for its expenses - for learning materials and the like. To get this, the group registers itself as a study circle at some study centre like KSL.)

Bibliography

- Bell, D.W., & C.G Hanson. 1989. *Profit sharing and profitability: how profit sharing promotes business success*. London: Kogan Page.
- Bonner, Arnold. 1961. *British Co-operation*. Manchester: Co-operative Union.
- Bradley, K. & A. Gelb. 1983. *Co-operation at work: the Mondragon experience*, London: Heinemann.
- Briscoe, R. et al. 1982. *The Co-operative Idea*. UCC: Centre for Co-operative Studies.
- Briscoe, R. "Making worker co-operatives effective in the South Pacific." *The Journal of Pacific Studies* Volume 16, pp. 28-45.
- Briscoe, R. & M.Ward. 2000. *Co-operatives in Ireland*. National University of Ireland, Cork: Centre for Co-operative Studies
- Coleman James S. "Social Capital in the Creation of Human Capital," *American Journal of Sociology* 94 (1988)
- Di Carlo, Russell (Ed.) 1996. *Towards a New World View: Conversations on the Leading Edge*. Edinburgh: Floris Books.
- Corbett, Malcolm. 1999 "Net Gain for Co-ops." *Review of International Co-operation*. Volume 92, No. 1,
- Ellerman, D. P. 1990. *The democratic worker-owned firm: a new model for the east and west*. Boston: Unwin Hyman.
- Fukuyama, Francis. 1996. *Trust: The Social Virtues and the Creation of Prosperity*. London: Penguin Books.
- Hampden-Turner, Charles. 1991. *Charting the Corporate Mind*. Oxford: Basil Blackwell.
- Hird, Christopher. 2000. "Making co-operation competitive." *Red Pepper*, November.
- R. Jackall & H. M. Levin. 1984. "Obstacles to the survival of democratic workplaces," in Jackall and Levin (eds.) *Worker Co-operatives in America*. Berkeley: University of California Press.
- Jacobson, R.E. & C. O'Leary. 1990. *Dairy Co-op Issues in Ireland: with special reference to PLC activities*. University College Cork: Centre for Co-operative Studies.
- David C. Korten, 1998. "Your mortal enemy." *The Guardian*, Wednesday October 21.
- Levin, H.M. 1984 "Employment and productivity of producer co-operatives," in Jackall and Levin (eds.) *Worker Cooperatives in America*, Berkeley: University of California Press
- Lutz, M. A. & K. Lux. 1988. *Humanistic economics: the new challenge*, New York: Intermediate Technology Development Group (Bootstrap).
- McLagan, P. & C.Nel. 1997. *The Age of Participation: New Governance for the Workplace and the World*. San Francisco: Berrett-Koehler.

- MacLeod, Greg. 1997. *From Mondragon to America: experiments in community economic development*. Sydney, Nova Scotia: University of Cape Breton Press.
- Miller, Danny. 1990. *The Icarus Paradox: How excellent Organisations Can Bring About Their Own Downfall*. New York: Harper Business,
- Morrison, R. 1991. *We build the road as we travel*, Philadelphia: New Society Publishers (167-182).
- Parnell, Edgar. 1990. *People-Centred Business: PCBs - what they are, how they become successful and why they are important*. Oxford: Plunkett Foundation for Co-operative Studies
- Pascale, R.T. 1990. *Managing on the Edge: how Successful Companies Use Conflict to Stay Ahead*. London: Viking Penguin.
- Pateman, Carole. 1970. *Participation and democratic theory*. Cambridge University Press.
- Russell, G.W. (AE). 1982. *The National Being: some thoughts on an Irish polity*. Dublin: Irish Academic Press.
- Schumacher, E.F. 1974. *Small is Beautiful: A Study of Economics as if People Mattered*. London: Abacus.
- Senge, Peter. 1990. *The Fifth Discipline: the art and practice of the learning organisation*. London: Century Business.
- Simmons, J. & W. Mares. 1983. *Working Together*. New York: Alfred Knopf.
- Stacey, Ralph D. 1993. *Strategic Management and Organisational Dynamics*. London: Pitman Publishing.
- Strauss, G. 1990. "Worker participation in management: an international perspective," in L .L. Cummings & B. M. Staw (eds.), *Leadership, partnership and group behaviour*. Greenwich, Connecticut: Jai Press Inc.
- Stopford, John. 2001. "Should strategy makers become weavers of dreams?" *Harvard Business Review*, January
- Thirkell, David. 1998. "Ignorance abounds on the worth of farmer co-ops." *Irish Farmers' Journal*, November 7th,
- Tucker, Vincent. 1983. "Ireland and the origins of the co-operative movement," in Carla Keating (Ed.), *Plunkett and Co-operatives: past, present and future*.
- Webb, Tom. 1998. "Marketing Co-operation in the Global Economy," *Review of International Co-operation*.
- Young, Michel, & Marion Rigge. Undated. *Mutual Aid in a Selfish Society: a plea for strengthening the co-operative movement*. London: Mutual Aid Press.