Revisiting the Role of Co-operative Values and Principles

Do They Act to Include or Exclude?

Lou Hammond Ketilson

January 2006

University of Saskatchewan
Centre for the Study of Co-operatives

Revisiting the Role of Co-operative Values and Principles

Revisiting the Role of Co-operative Values and Principles

Do They Act to Include or Exclude?

Lou Hammond Ketilson

Centre for the Study of Co-operatives
University of Saskatchewan

Centre for the Study of Co-operatives
University of Saskatchewan

Cover design by Byron Henderson
Editing, interior layout, and design by Nora Russell

Library and Archives Canada Cataloguing in Publication
Ketilson, Lou Hammond
Revisiting the role of co-operative values and principles : do they act to include or exclude? / Lou Hammond Ketilson.

Originally a chapter in: Co-operative membership and globalization.
Includes bibliographical references.
Also available in electronic format.
ISBN 0–88880–505–5
ISBN 13: 978–0–88880–505–8

1. Cooperative societies. I. University of Saskatchewan. Centre for the Study of Co-operatives II. Title. III. Title: Co-operative membership and globalization.

HD2961.K47 2005 334 C2005–906156–1

Printed in Canada
07 08 09 10 / 5 4 3 2

Centre for the Study of Co-operatives
101 Diefenbaker Place
University of Saskatchewan
Saskatoon SK Canada S7N 5B8
Phone: (306) 966–8509
Fax: (306) 966–8517
E-mail: coop.studies@usask.ca
Website: http://www.usaskstudies.coop

Contents

Centre for the Study of Co-operatives

The Centre for the Study of Co-operatives is an interdisciplinary teaching and research institution located on the University of Saskatchewan campus in Saskatoon. Contract partners in the co-operative sector include Credit Union Central of Saskatchewan, Federated Co-operatives Ltd., Concentra Financial, and The Co-operators. The centre is also supported by Saskatchewan Regional Economic and Co-operative Development and the University of Saskatchewan, with the CUMIS Group making an additional contribution. The university not only houses our offices but provides in-kind contributions from a number of departments and units—Agricultural Economics, History, Management and Marketing, and Sociology, among others—as well as financial assistance with operations and nonsalary expenditures. We acknowledge with gratitude the ongoing support of all our sponsoring organizations.

The objectives of the Centre are:

- to develop and offer university courses that provide an understanding of co-operative theory, principles, developments, structures, and legislation;
- to undertake original research into co-operatives;
- to publish co-operative research, both that of the Centre staff and of other researchers; and
- to maintain a resource centre of materials that support the Centre's teaching and research functions.

For more information about the Centre, please contact:
Centre for the Study of Co-operatives
101 Diefenbaker Place
University of Saskatchewan
Saskatoon SK S7N 5B8 Canada
Phone: (306) 966–8509 / Fax: (306) 966–8517
E-mail: coop.studies@usask.ca / Website: http://www.usaskstudies.coop

Our publications are designed to disseminate and encourage the discussion of research conducted at, or under the auspices of, the Centre for the Study of Co-operatives. The views expressed constitute the opinions of the author, to whom any comments should be addressed.

The future role of co-operatives in the economy will be determined largely by their ability to distinguish their form of economic enterprise from those of other economic players, and to achieve wide public acceptance of that role.

—The Bundon Group, 1991[1]

Introduction*

THE ATTEMPT TO IDENTIFY DISTINCTIVENESS has become a bit like the search for the Co-operative Holy Grail, and many writers have offered opinions regarding what might be considered distinctive.

Most academics and practitioners cite co-operative values and principles as the primary source of distinguishing features. The co-operative principles have been revisited three times after having evolved from the original statutes and practices of the Rochdale Society of Equitable Pioneers in England in 1844.[2] The latest and perhaps most exhaustive review, conducted in order to arrive at a common Statement on the Co-operative Identity, was finalized at the International Co-operative Alliance Centennial Congress in Manchester in 1995.[3]

The importance of reaching such an agreement is clearly identified in the following quote:

> A soundly founded movement will grow marvelously if the members act up to their principles. Of course the difficulty is

* This paper was originally a chapter in a book titled *Co-operative Membership and Globalization: New Directions in Research and Practice* (Saskatoon: Centre for the Study of Co-operatives, 2004). It is reprinted with permission of the author.

> there. A principle is a troublesome thing, and no wonder that so many persons have distaste for it. A principle … is a profession of conduct: it implies a method of procedure: it is a rule of action—a pledge of policy to be pursued.[4]

And therein lies the difficulty and the essential issue I wish to address in this paper. Co-operative practitioners and academics recognize that the movement and the institution will endure in an increasingly competitive and individualistic world only if we are able to identify and sustain elements central to their distinctiveness. Advocates of co-operatives in their "purist"[5] form point to the principles as the mechanism to ensure that co-operatives will continue to exist in a form and with functions distinctive from privately-owned or investor-owned firms.

This is an important objective. The downside, however, is that the rigidity that must accompany this goal may prevent many who are interested in the co-operative model of organization from pursuing it further when they run up against those in positions of authority who refuse to consider modifications to the model. And the movement therefore risks losing an important source of new supporters.

As co-operative practitioners and researchers, should we insist upon imposing on others the Eurocentric model that currently exists in Canada, derived as it is out of the specific needs and aspirations of the Rochdale Pioneers of the 1840s? Perhaps there are other aspects contributing to the distinctiveness of co-operatives that might draw new members and developers who possess a different cultural viewpoint, which would ultimately serve to sustain or expand the movement.

Continuing the Search

Beyond identifying co-operative principles as a source of distinctiveness, many researchers emphasize elements related to the structures and processes found within co-ops.

In their extensive review of the literature on the management of

co-operatives and other organizations, for example, Brown, Craig, and Hammond Ketilson[6] suggested that co-operatives must not forget that they are, first and foremost, self-help organizations.[7] They also noted Furstenberg's argument that since democratic processes are the basis for the legitimization of authority in a co-op, legitimacy can easily be lost if democracy is forfeited.[8] Côté recognized that co-operatives generally differ from conventional businesses in their operating principles, the legislative framework within which they function, and their acquisition and use of capital.[9]

Others identify the importance of the relationship between co-operatives and their members as what sets them apart.

> Even though co-operatives perform functions similar to those of traditional business firms, they have unique differences in their relationship to the owners. The co-operative organization does not buy, process and sell to make a profit as a separate entity; instead, it procures services for the benefit of its members—who hope to increase their savings if it is a consumer co-operative, or to increase their profits of their own separate business if it is a farmer or business co-operative.[10]

Indeed, closeness to the members and responsiveness to their needs was the competitive advantage of co-operatives during the first half of the twentieth century. Initially, co-operatives successfully addressed the issues of the day, but the established structures and processes became outmoded as the co-ops grew, and decision makers began to borrow methodologies from conventional business in response to changes in the co-ops, the environment, and technology. While these actions helped the enterprise side to some extent, they unfortunately neglected responsiveness to members. Ultimately, the culture of co-operatives stagnated as the co-ops paid too little attention to education and efforts to attract young people and immigrants.[11]

Beginning in the 1970s, concerned officials and researchers began to critique the malaise developing within co-operative management. They urged leaders to develop uniquely co-operative management styles and techniques in order to invigorate interest in their organizations and to encourage greater pro-activity among co-operative decision makers.

Since then, theorists have made efforts to identify management philosophies and styles most congruent with co-operative values and principles. Early writers have concluded that direct participation and the structures and facilitation of participatory democracy in various aspects of organizational life increase knowledge and commitment through experiential learning. Direct participation also provides co-operative leaders and managers with the information they need to respond to their members and their markets.[12] It has been observed that co-op management styles should be democratic in nature[13] and must go beyond representative democracy to meet not only the requirement of representativeness but also that of responsiveness.

Drawing upon contemporary management literature and linking it to the values underlying the co-op principles, as well as the structures and processes inherent in co-operatives, Brown, Craig, and Hammond Ketilson proposed that a co-operative management style should be more informal, friendly, supportive, and participative.[14] Co-op managers should be expected to stress direct democracy (participating and learning through doing) and member involvement, with an emphasis on teaching people and facilitating learning and a de-emphasis on positional authority. Further, Hammond Ketilson et al. concluded that co-operatives need to utilize effectively all human resources—women, youth, Aboriginals, and minorities—and are uniquely positioned to do this if they would just rise to the challenge.[15]

In his writings about co-operative management, Côté speaks to a distinctively co-operative dilemma: if a co-op neglects its associational needs, the consuming public can no longer distinguish it from any other business.[16] The problem becomes cyclical. In order to differentiate the co-operative, pressures mount to conform with conventional business models and strategies, moving the organization away from its co-operative roots. As it continues to neglect member needs, and perhaps fails to perform at a higher level using traditional business methods, the membership may move away from the co-op entirely, not only because it no longer acts like a co-operative but also because it fails to out-perform conventional business.

Ultimately, co-operative leaders must find answers to two basic questions: What draws members to a co-operative, and what holds their loyalty? The ongoing quest for these answers constitutes part of the research project on which this book is based and includes an exploration of what sets co-operatives apart and why people might choose to join or start one. My primary focus will be the co-operative principles and the accompanying rigidity noted earlier in the quotation from Holyoake.

As researchers interested in understanding co-operatives, we must ask ourselves, "Are the co-op principles useful in this search for uniqueness? Or do they only appeal to those with a lengthy involvement in co-ops—like a secret handshake or whispered password into the halls of co-op history? What do those principles mean? Is there some way to make them more accessible? How do co-operatives appear to newcomers—do they seem to be intriguing, dynamic organizations or curious dinosaurs of the past?"

Observations Based on Experience

My observations regarding issues of concern to future research on co-op membership flow from a number of experiences. The first arises directly from an occurrence in the classroom with business students. I had invited a speaker who was a member of a worker co-operative to share with my students his experiences as a worker and member. He explained at length how his co-op worked, and why, from his point of view, it was such a valuable institution and so preferred in its organizational form to others. The following class I asked my students to comment on what they had learned. You can only imagine my surprise when one individual remarked with great enthusiasm that a worker co-op functioned in exactly the same way as an Amway distributor!

I wondered for many days how what he and I had heard at the same

time could have been understood in such different ways. I finally concluded that it had a lot to do with where the listener starts from; in order to understand, the listener looks for familiar elements in what is being described. My students had little or no direct experience with co-operatives. And from their point of view, aspects of what I considered to be the most interesting or most significant, indeed the strengths of co-operative organizations, they considered to be, at best, curiosities, and at worst, alarming weaknesses.

> *Conclusion #1: My understanding of co-operatives, and that of established co-ops or the larger co-op system, is not universal. We have to constantly keep that thought in mind: How does a co-op appear to someone to whom it is unknown?*

Would newcomers to a co-op annual meeting feel that a lengthy and animated discussion of policies related to purchasing was an exercise of democratic rights, or would they feel that the members were interfering in the job of the purchasing manager? Would consulting with members regarding significant changes in business strategy be considered a wise investment of the manager's time to ensure that the membership supported the new ideas, or simply an unnecessary delay in the business decision-making process?

Co-op advocates have to be able to explain how participating in the democratic process strengthens rather than weakens the organization, since the positive outcome may not be immediately obvious to those unfamiliar with the dynamics of co-op–member interaction.

My second observation derives from experiences and intellectual struggles encountered as a colleague and I conducted our initial research into the state of Aboriginal co-operatives in Canada.[17] I began my investigation with the viewpoint of a researcher who has been looking at issues related to co-operative membership for a long time—perhaps too long to be able to see with fresh eyes. I knew in detail the benefits of co-operation and of participating in co-operative organizations personally; I also had many years' experience studying other people's understanding of what a co-op is and why they might choose to be involved as a member.

I went into the research with a number of assumptions fixed firmly

in mind, in particular regarding what makes co-operatives an attractive organizational form for people and communities. I believed that democratic structures would have great appeal and that the concept of membership would resonate with First Nations peoples, who have been marginalized from so many aspects of Canadian life.

In the process of gathering our information, we discovered many examples, particularly in northern Canada, where Inuit and Dene communities had embraced the co-operative model and built a movement across the country. Co-operatives had been used as a foundation to provide a wide variety of services in remote regions previously unserviced or underserviced. In the south of Canada, however, we did not find so many examples. And we wondered why.

I discovered that the notion of membership with which I was most familiar—my experience of co-operatives in Canada and Europe—may be perceived, in the on-reserve, southern Aboriginal experience, as being in competition with membership in the First Nations cultural and ethnic context. The latter is a type of membership that comes intact with its own structures, processes, and traditions, which may or may not complement or support the structures and processes in place within co-operative organizations as they have developed across Canada historically.

> *Conclusion #2: Had First Nations' understandings of membership and identity been integrated into the co-operative models developed at the turn of the century, we might have had a very different model in place today. Since this is not the case, are we able, first of all, to understand what those variations might have been and why, and secondly, can we identify unique modifications within existing Aboriginal co-operatives and the reasons for the change? Finally, can we make room to embrace rather than exclude them as appropriate cases for study?*

Since my own research is in its early stages, it is premature to have answers to the first two questions. I have recognized, however, that the extreme importance of kinship and family must be reconciled within the current model of membership and governance. Furthermore, the governance model must accommodate the central role of the band within the

community, while maintaining an arm's length relationship. And I feel strongly that co-op–like initiatives must be studied to expand our understanding.

Applying the Co-operative Principles

My final observations are linked to my own efforts to identify the ways in which co-operative organizations can integrate co-op values and principles into their strategic behaviour in the marketplace, successfully transforming this behaviour into increased member participation and greater member loyalty. My approach to this challenge emerges from the early work by Robert Briscoe regarding consumer co-operatives on the east coast of the United States.[18]

Briscoe concluded that "the conservativism which characterizes the behaviour of so many co-ops stems, in part, from the active participant's ways of perceiving the world of business, and from the disabling dilemmas he experiences when trying to reconcile his social ideals with the day-to-day running of a supermarket."[19] He classified as "frozen" the group of co-operatives that were either stable or in decline. He suggested that their managers in particular, but decision makers in general, were unable to say what a co-op could do to distinguish itself in the competitive market-place; the leaders could not articulate and pursue a co-operative vision. Finally, they were unable to adjust their thinking in order to meet new challenges as opportunities rather than threats.

Co-operatives suffering from the *frozen co-op syndrome* experience a situation in which:

> most of the traditional dreams, goals and functions of co-operatives have been overtaken by events and … virtually all that is left to the co-operator is an attachment to the institutional value of democracy. This value is seen as impairing the efficient operation of co-ops and, as a consequence, co-op values are seen as

> incompatible with efficiency in business. Hence, co-operators believe that their Store is superior, from a moral point of view, but inferior as a business.… This dichotomized view of the world … also appears to lead to a split in the leadership of the co-op (a split which is often formalized). As a result, business activities tend to be characterized by opportunistic adaptation, uniformed by co-operative principles, and the idealism of active members is frequently channeled into relatively harmless, expressive activities.[20]

The two world views are present in two types of leaders/managers: The *trader* believes that economic criteria alone should drive decision making and considers adherence to co-operative principles a burden and barrier to business success. The *idealist* is prepared to compromise economic criteria in order to adhere strictly to co-operative principles. Neither approach results in rapid improvements in sales or profitability.

Briscoe observed that successful co-operatives were able to devise business strategies focussed on translating social values into business operations, which resulted in improved business performance and increased member benefit by providing distinctive services to the member/customer. He concluded that it was more profitable to approach the problem by devising strategies that were viable from an economic point of view as well as being desirable from a values point of view—in other words, values formulated in instrumental as well as institutional terms.

I began my research using this conclusion as a point of departure to determine if applying co-operative values[21] rather than co-operative principles might be a more productive means of identifying how co-op distinctiveness could form the basis for competitive advantage.

Reviewing the actions of a number of Canadian co-operatives that I felt had been successful in formulating their values in instrumental terms, I identified strategies that ranged from modest proposals for meeting more adequately the needs of a small community to ambitious schemes to remake the world.[22] I concluded that these activities implied a rethinking of how to work with the co-operative principles. The actions of the co-operatives in my study[23] demonstrated that it is not

enough to value co-ops because they are member owned and democratic —a structure and set of processes derived from co-operative principles. If member ownership is to mean anything, a co-operative or credit union must be more responsive than other organizations to the needs of members and consumers in general, and more sensitive to the inadequacies, from a consumer point of view, of the business activities of itself and its competitors. In other words, a successful co-op must move beyond the paralysis that Briscoe identified, a paralysis that prevents decision makers from linking co-operative principles in a practical, proactive way to the reality of everyday decision making.

As I reviewed first the co-op management literature, then actual examples of best practice in co-operative organizations, I looked for cases where co-operative principles had been integrated in operational terms. And as I examined the principles more closely in the context of co-operative organizations across a number of sectors, I found myself struggling to identify the principles in the behaviour of managers. It was easier to do with some principles than with others.

I concluded that if I had this much difficulty, then one could see why managers, whose daily lives consist of solving one problem or another, moving from one crisis to another, were unlikely to devote a great deal of time to sorting out where the co-operative principles might fit with a decision that had to be made quickly. There had to be a different way to focus behaviour.

In the examples of best practice, I observed the ability of the successful co-operatives to identify *a value or set of values* that resonated with the members. By starting with the values, then devising ways to operationalize them, decision makers could more easily recognize when a behaviour was consistent or not, thus making their lives more manageable.

As I reflected on the values identifiable in the actions of the co-ops, I realized that some could be categorized as unique to co-operatives, while others were not. The focus on eco-friendly and sustainable enterprise advocated by Mountain Equipment Co-op, for example, is shared by other organizations; the emphasis on responsible corporate citizenship is not exclusive to VanCity Credit Union; and Desjardins is not the only or-

ganization to subscribe to the values of solidarity and mutual aid. The value of democratic participation and control, however, is distinctive to a co-operative. And the way in which these values are operationalized is singularly co-operative. Participation in decision making creates a unique relationship between member/owners and their co-op, along with a corresponding set of responsibilities that both must uphold to sustain the connection.

This conclusion may be considered heretical to those who have a specific, perhaps more narrow, understanding of what co-operative values and therefore actions should be. According to my observations, the co-operatives that have successfully wed values to actions are those that have responded uniquely to the strongly held standards of the *community of members*. This finding implies that these values are, to some extent, situational rather than universal. Further, this means that it is more difficult to claim a set of values as being fundamental to co-operatives, and therefore essential to identifying one organization as being a "true" co-op, while another might be but a poor second cousin.

Which leads me to my final conclusion.

Conclusion #3: As researchers, we need to acknowledge the importance of being open to broader and/or new understandings of co-operative values and to fresh interpretations of co-op principles. We must be open to considering greater flexibility—new applications of the values and different interpretations of the model and perhaps the principles. These applications should not stray from the essential core of what a co-op is, of course, but should allow individuals who come from different contexts and cultures the ability to define the co-op model in their own way.

Indeed, in *The Meaning of Rochdale,* Brett Fairbairn reminds us that "the important thing to remember is that the meaning of Rochdale is constructed by each generation to meet its own needs." Further, he says, "there have been many approaches to co-operation; and … the widespread acceptance of Rochdale principles in today's co-operative movement is the result of battles, defeats, and compromises."[24]

As researchers, we must look at co-operatives with fresh, unclouded

eyes if we are to effectively identify what it is about them that draws and will continue to draw members in the future. This does not mean that we need to abandon all we have come to define as beneficial regarding co-operatives—all that makes them attractive as organizations. Nor does it mean that we must forsake our current definitions, the structures and processes that set them apart. It does mean, however, that we must open ourselves to diverse viewpoints and understandings of what the organizational model could be or should be. And in our quest to find what motivates membership, we must include in our research samples organizations that may not technically be considered to fall within the population. Finally, we must conceptualize and measure in ways that are respectful of these diverse understandings.

Endnotes

1. The Bundon Group, "A Framework for Analysis," presented to the Canadian Co-operative Association First Triennial Congress, Calgary, 1991, p. 8.

2. Brett Fairbairn, *The Meaning of Rochdale* (Saskatoon: Centre for the Study of Co-operatives, 1994).

3. Ian MacPherson, "Background Paper on the ICA Statement on the Co-operative Identity," *Review of International Co-operation* 88, no. 3 (1995): pp. 5–68.

4. George Jacob Holyoake, *The History of Co-operation in England: Its Literature and Its Advocates,* 2 vols. (1879; reprint, New York: AMS Press, 1971), pp. 79–81.

5. In 1966 the co-op principles were presented to the Congress of the International Co-operative Alliance as universal and "inseparable" principles that "all possess equal authority" and "should be observed in their entirety by all co-operatives." Any organization that failed even one of the six tests would not, according to the 1963–66 commission, be a co-operative. Fairbairn, p. 32.

6. L. Brown, J. Craig, and L. Hammond Ketilson, "Theory," in *Making Membership Meaningful: Participatory Democracy in Co-operatives,* by The International Joint Project on Co-operative Democracy (Saskatoon: Centre for the Study of Co-operatives, 1995), p. 290.

7. H. Hanusch, "Market and Bureaucratic Failure as a Problem of Self-Help Development," in *Co-operatives: In a Clash between Members,* eds. E. Dulfer and W. Hamm (London: Quiller Press, 1985), pp. 57–75.

8. F. Furstenberg, "Problems of Member Participation at Different Stages of Co-operative Development," in Dulfer and Hamm, pp.103–17.

9. Daniel Côté, «La gestion stratégique de l'organisation coopérative,» dans *La gestion stratégique d'entreprise,* ed. M. Côté (Boucherville, PQ: Gaëtan Morin, 1995), pp. 197–217 (texte repris de la revue *Coopératives et Développement* 24, no 1 (1992 –93), pp. 17–40).

10. J.C. Thompson and H.B. Jones, Jr., "Economic Appraisal of Co-operative Enterprise in the United States: Principles and Issues," *Agricultural Administration* 8 (1980): pp. 385–400.

11. Brown, Craig, and Hammond Ketilson.

12. L. Brown, "Organizational Ideology, Structure, Process, and Participation: Twin City Food Co-operatives" (Ph.D. diss., University of Minnesota, 1983).

13. See R. Briscoe, "Traders and Idealists: A Study of the Dilemmas of Consumers' Co-operatives" (Ph.D. diss., Harvard University, 1971). See also J. Quarter and G. Melnyk, *Partners in Enterprise: The Worker Ownership Phenomenon* (Montreal: Black Rose Books, 1989).

14. See note 6.

15. L. Hammond Ketilson, M. Gertler, M. Fulton, L. Polsom, and R. Dobson, *The Social and Economic Importance of the Co-operative Sector in Saskatchewan* (Saskatoon: Centre for the Study of Co-operatives, 1998).

16. See Daniel Côté, "Strengthening Co–op Identity and Loyalty: A Management Approach," presentation to the conference Co–operative Membership and Globalization: New Directions in Research and Business Strategies, Saskatoon, 2002.

17. Lou Hammond Ketilson and Ian MacPherson, *A Report on Aboriginal Co-operatives in Canada: Current Situation and Potential for Growth* (Saskatoon: Centre for the Study of Co-operatives, 2001).

18. See Briscoe.

19. Ibid., p. 1.

20. Ibid., p. 92.

21. The Statement on the Co-operative Identity indicates that co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. Co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others. See I. MacPherson, *Co-operative Principles for the 21st Century* (Geneva: International Co-operative Alliance, 1995), p. 1.

22. These comments are based on a presentation titled "Integrating Co-operative Principles into Strategic Decision Making in Credit Unions," made to the Fall Delegates' Meeting of Credit Union Central of Saskatchewan, Regina, November 2002.

23. The sample included co-operatives and credit unions from across Canada examined in various studies, including my thesis "Strategy Formulation in Consumer Co-operatives: An Integrative Model of Organizational Ideology and Context (Ph.D. diss., University of Saskatchewan, 1988); *The Social and Economic Importance of the Co-operative Sector in Saskatchewan;* and "Calgary Co-operative Association" and "Saskatchewan Wheat Pool," in *Making Membership Meaningful.*

24. Fairbairn, pp. 1–2.