

member benefits

democratic

community

**Three Strategic Concepts for
the Guidance of Co-operatives**

Linkage, Transparency, and Cognition

BRETT FAIRBAIRN

January 2003

education

autonomy

participation



UNIVERSITY OF
SASKATCHEWAN

Centre for the Study
of Co-operatives

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for the Guidance of Co-operatives**

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Centre for the Study of
CO-OPERATIVES



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Centre for the Study of Co-operatives
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Preface

THE PURPOSE OF THIS BOOKLET is to present ideas for the strategic guidance of co-operatives. These ideas are based on reflection about experience and practice within co-operatives, as well as co-operative theory, and are especially relevant to contemporary discussions of co-operative strategies and new structures.

One of the convictions behind this booklet is that the language used in contemporary Canada to discuss co-operatives has become somewhat stale, rigid, and superficial. Co-operatives are highly adaptable and complex institutions; their essence cannot easily be captured by any simple formula or list of characteristics. The adoption of a new statement of co-operative identity and principles by the International Co-operative Alliance in 1995 is one sign of new times: this list opened up new flexibility in structural features such as treatment of capital and surpluses, while adding new considerations such as concern of co-operatives for community.¹ The ICA's statement was not meant to end discussion of co-operative principles and practices, but rather to be a new beginning for the examination of approaches in more specific settings and types of co-operatives.

Changing times make it critical to find new and renewed ways of understanding and expressing co-operative approaches to business and society. Such new and renewed understandings are best developed on the basis of a deep comprehension of past and present experience. At the same time, imagination is critical. Either element—knowledge of what has been and what is, or imagination about what might be—is incomplete without the other. There are many possible insights regarding how co-operatives should conduct their business. The ones contained here are offered in a spirit of exploration, for others to make use of or build upon as they find helpful.

Transcending the “Social” and the “Economic”

IT IS COMMON PARLANCE IN CO-OPERATIVES to refer to co-ops as having both “social” and “economic” objectives. Sometimes this is even used as a form of definition of what co-operatives *are* and what they are *for*: that they differ from other businesses because they have social goals. While there is an element of truth in this, this terminology can also become misleading.²

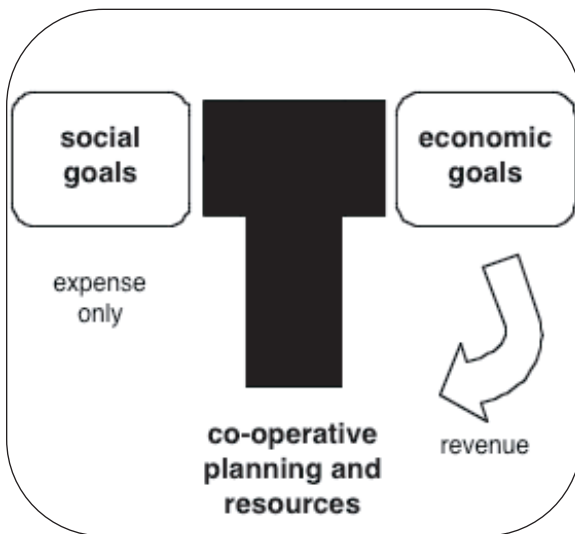
The problem with the “dualistic” view (social and economic) is that it appears to lay a second set of obligations on co-operatives, over and above those they face in common with competing, non-co-operative enterprises. In other words, while other businesses have only one, clear set of obligations (the economic: profit), co-operatives in this view carry a double burden. This way of thinking leads many mainstream economists, business leaders, and policy makers to conclude that co-operatives are mere curiosities that will be left behind under all but exceptional circumstances because they are burdened by greater hindrances and expectations than their competitors. They cannot raise capital from markets the same way other businesses can, yet they actually are expected to do more than other businesses. Therefore, co-operatives will generally fail, weaken, or transform into more conventional structures. They can be disregarded because they will always be marginal.

The social-economic dualist view of co-ops persists, perhaps, because it is useful for various groups to think this way— up to a point. For managers of co-operatives, dualism is helpful because it encourages them to concentrate on “their” job—the economic one—and leave social goals for others to worry about. This perspective slides easily into a *primacy of economic goals over social ones*, along the lines of: the co-op has to first make

money before any of it can be spent on good causes. Economic goals become *money-making* and sustaining goals; social goals become costs.

But dualism may be no less attractive for others. For community social activists, the separation of social and economic goals provides ammunition for criticizing and pressuring financially successful co-ops to do more of what the activists believe would be good for the community. The phrase “it may be successful, but it’s not a *real* co-op any more”—a phrase heard in many countries around the world—usually means that the co-op is concentrating on economic goals. A “real co-op” is defined, in this view, as an organization that does what the activist wants it to, not by structural features or principles. Activists who claim ownership of social goals can set themselves up as arbiters of co-operative purity, without needing to concern themselves with the technical details of competition and survival, which is best left to managers. While one should avoid overgeneralization, it is important to note that the views of critical activists and hard-nosed managers may be mutually reinforcing and equally limited.

Figure 1: Social-Economic Dualism in Co-operatives



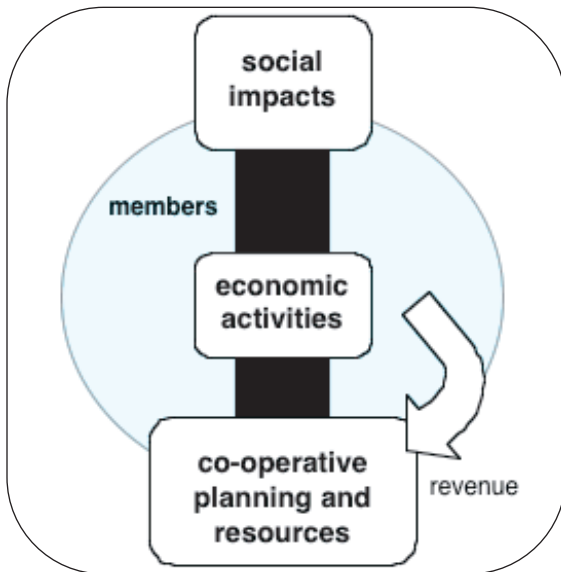
It may be that boards of directors also find that the categorization of some activities as economic and others as social helps them understand and organize their work. Economic activities are the ones they entrust to the general manager or CEO; social ones are those where the board may, without interfering with the CEO, take a closer interest.

These may include member relations and education, internal democratic processes, community relations, and donations to community and other worthy causes.

Various distinctions of what is social and what is economic may offer adequate ways of getting by from day to day, but they provide an impoverished view of what co-ops can actually accomplish. The idea that objectives are “social” *or* “economic” is a reductionist and simplistic idea. It provides little guidance to co-operatives in deciding *which* social or economic tasks to focus upon; and it suggests trade-offs and dispersals of energy when synergies may be called for. There is a more integrated and helpful way of thinking about strategic direction in co-operatives: to pursue an *integrated approach*, in which social goals are accomplished through economic activities, and in which the membership of the co-operative is the place where social and economic functions come together.

Figure 2 provides a diagram of such an approach. Here, the co-operative’s focus is clearly on its economic activities. It is understood by those

Figure 2: Social-Economic Synergy



involved, however, that the economic functions of the co-operative have effects on community, stakeholders, and society—“spin-offs” of the co-operative’s activities, so to speak, just as any business has spin-offs; but these are intended by those who create, join, and lead the co-operative. Also present in the diagram are the members, the element that ties together the different aspects of the co-operative. Indeed, the main social impact of any co-

operative should be through the impact it makes on its members. Who those members are, where they live, what they do, determines the nature of the co-operative's contribution to community and to society.

It could be asked why Figure 2 puts economic activities as the centre, the means by which social impacts are made, rather than the reverse. Can we think of co-ops as using social activities to achieve economic results? Perhaps, but a short answer would be that an organization whose main focus is not economic activity would not be a co-operative. Co-operatives are organizations formed by people when they see a need to employ a different economic tool to accomplish what they want. "Economic" must, of course, be broadly defined to include all types of services, organized in competitive environments and dealing with issues of scarce resources. In this sense we can call a co-operative health centre or a child-care co-operative an economic undertaking even if the environment in which it operates is not what we would usually call a market. All types of co-operatives have to cover costs with revenues raised in a competitive context.

Beyond Structure to Relationships

THE KEY TO A CO-OPERATIVE is the *relationships* that it cultivates and embodies. The most important of these may be the relationships between the co-operative and its members; however, relationships *among* the members, and among or between employees and other stakeholder groups, may also be important. Of course, any business depends on relationships with its customers, employees, investors, and so on. The difference in a co-operative is the closeness and multidimensionality of the relationships with members: they are customers as well as owners, part of the governance structure as well as the focus of operations. The relationship with members is what creates the co-operative difference: it is a source of distinctive possibilities. A co-operative is defined by, and draws strength from, its relationships.

Seeing a co-operative as defined by relationships is different from seeing it as defined by structures. A relationships-based view of co-operatives highlights the importance of issues of *trust* and of *agency*: how much and in what ways members trust the co-operative; to what extent it is efficient in acting as an agent of their interests. When we focus our attention on the trust/agency relationship, we can understand it as a source of ideas, of commitment, or weakness or strength of the co-operative.

We can contrast the relationship view with *structural* views of co-operatives. One common way of seeing co-operatives is to think of them as businesses like others, except that they have a democratic member-control structure. The structure, in this view, makes the co-op. The problem with considering only a structural view is that it is ultimately unsatisfying. *Why* do the members have a democratic control structure, if the business is no different from other businesses? Can a democratic control structure be an end in itself, worth the effort of creating a co-operative? Would it not be more efficient to deliver the same services without the apparatus of member control? Such questions are often asked by those who have doubts about the co-operative model.

It is a fuller and more useful view to see relationships, not structures, as the point of the co-operative, especially the relationship with members. This relationship has implications for both governance and operations, democratic involvement and product or service development and delivery. The concept of the member relationship is one that ties together the social and the economic, uniting separate “sides” of the co-operative organization. This relationship may also be cultivated in many different ways by different co-operatives. Sometimes, the democratic governance structure may be fundamental to the member relationship. In other co-operatives, this is not true: the relationship with members is defined more through the operational side of things, by shared values and understandings, by products and communication.

Many co-operatives have drawn attention to the importance of member relations by having separate departments for this function. Ironically, this has sometimes led to the ghettoization of member relations as an activity unconnected to co-operative business. When member relations concen-

trates on the democratic governance aspect of the organization, it is dealing with only a part of the total member relationship. Member relations are wider than and different, conceptually, from investor relations, because members are a source not only of capital and control, but also of sales and use of the co-operative.

The remainder of this booklet outlines three concepts for thinking about the member relationship in ways that bridge the social and economic, governance and operations functions, and are applicable to different kinds of co-operatives. These concepts are *economic linkage*, *transparency*, and *cognition*.

Linkage with Members

WHY DO MEMBERS INVEST CAPITAL, time, and loyalty in their relationship with a co-operative? While there are a variety of answers to this question, the key one, in general, is: *because they trust that doing so will be in their own interest as well as the interest of other members*. Co-operatives earn this trust when members perceive them to be dedicated to serving the members' needs, not the needs of the organization or of any other group. Members support co-ops because co-ops are dedicated to making members better off. This dedication is reinforced by other aspects of the co-operative relationship, including shared values and member identification with the co-operative's purposes (about which, more below).³

Another way of putting this is that the members trust the co-operative when they perceive it as an effective agent for themselves.⁴ The co-operative is a kind of combination, representation, or projection of the individual economies and interests of its members. There are two significant parts to this agency relationship. First, the co-operative must actually be an efficient agent for what its members want and need; if it is not, it will, in the long run, be unable to earn members' trust and support. But second, the members must *perceive* that the co-op is an efficient agent: perception, in

this case, is everything. A co-op that is a faithful agent of its members, but is not known or perceived to be so, will gain no advantage from the relationship. It is the perception, created by communication and experience, that creates trust (more about this later in this essay).

The dedication of co-operatives to serving members has been expressed in many forms. “Not for profit, not for charity, but for service to the members” is an old motto of the credit-union movement. But the concept of *service* to members is a very broad one, which may not encompass any different relationship from the normal business-customer kind. While a service orientation is a good starting point, we can be more specific: co-operatives undertake those activities that *promote the economic success or well-being* of their members. What distinguishes them from other forms of enterprise is that they exist not to maximize or optimize their own profits or welfare, but rather those of their members. This interlocking of the co-op’s interest and the members’ interests is part of what we can call the *economic linkage* between the co-op and its members.

Co-operative Economic Linkage

- the co-operative’s activities *promote the economic success* or well-being of the member’s household or income
- there is a *close connection* between the success of the co-op and of the member: if one does well, the other shares in the success
- the co-op’s products and services are tailored to *specific member needs*
- member choices and behaviour are tailored to what is needed for the co-op to succeed

The traditional co-operative practice of paying patronage refunds—although it is only one form of economic linkage—can be understood as a common example of this linked relationship. Patronage refunds are,

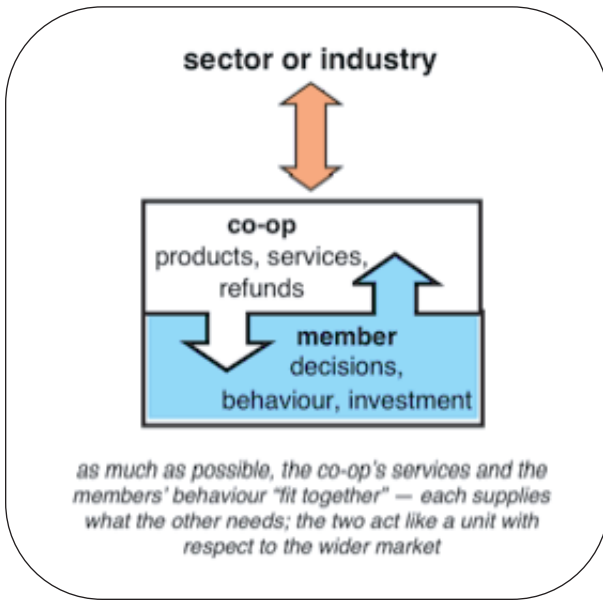
among other things, a mechanism for ensuring that *members share necessarily in the economic success of the co-op*. In other words, the co-op cannot prosper without its members automatically prospering, too. The member can trust that the co-op will not profit off the members' business, because any surplus is returned to the members in proportion to their business. Where close relationships exist between co-ops and their members, the reverse also tends to be the case: the better off the members become, the better the co-op does. Again, in the classic case of a consumer co-operative, when the members are better off, they have more disposable income to spend; and if they are loyal to the co-op, the co-op will benefit in volume and efficiency from the members spending more. Such linkages create incentives or rewards for the co-op to serve the members and for the members to patronize the co-op. Incentives and rewards are one aspect of linkage, and the loyalty/patronage refund mechanism is one of the most common ways in which linkage has been institutionalized in co-ops. There can be many others.

Linkage is not only about a service orientation, distribution of surplus, or incentives. A further aspect is that co-ops' business operations and members' business or household decisions can become closely co-ordinated with one another, leading to a situation where each provides exactly the *kind* of service, product, or patronage that the other can best use. In such a close, integrated relationship, the economy of the member and the economy of the co-op fit together like hand and glove. Neither could attain a better fit out of any other partner, because each has tailored its behaviour to suit the other's needs. This tailoring is not an accident, but is the result of structure, strategy, and evolution over time to achieve results that are achievable in no other way.

New Generation Co-operatives (NGCs)—agricultural co-operatives that spread widely in the midwestern United States after 1990, and recently into Canada—epitomize this relationship. In a classic NGC, the co-op processes the members' agricultural products. Through a contractual relationship, the members produce the grade and quantity and type of product needed by the plant, and the plant is built to handle what the members produce. This makes it possible for the plant to capture quality premiums and efficiencies that would not otherwise be possible, and to pass the resulting benefits on to members.

Another example is the linkage of individual co-operatives, within a federated system, to a central wholesaler. Where this linkage is well developed, the wholesale supplies what the members require; the members demand the products or services that the wholesale offers. The resulting efficiencies and quality make the whole system function at a higher level than it could if less linkage were present.

Figure 3: A Linked Co-operative



In such cases, neither the co-operative nor the members can really be understood as separate economic actors. They have become interlinked to the point where the co-op and its members need to be thought of together as a single *system* —one formed by evolution and voluntary adaptation, not simply by mandate or by planning. Of course, certain

co-operatives and certain sectors of service or industry are more conducive to such close, integrated relationships. Every co-operative represents an adaptation of the ideal model to particular circumstances, and some will develop aspects of linkage much more than others. The important point is that *within the circumstances of whatever sector or industry* where the co-operative is active, pursuing linkage with members to the greatest practical extent, perhaps using innovative or unconventional methods, will generally be a sound organizational strategy.

The “Linked” Co-operative: Implications

THE IDEA OF ECONOMIC LINKAGE with members holds out an interesting challenge for co-operatives: how to think about products and services that will make members better off, and if possible, be better suited to the *specific* needs of members than any generic product on the market. The concept of linkage induces co-ops not to think of their products or services as simple commodities, but instead to think of particular ways to *add value* in meeting member needs. This poses a special challenge when member needs are diverse: the co-op may feel a pressure to offer a standardized service or product for all members—a commodity, in other words. Such a commodity is easily subject to price competition from competitors, and moreover, leaves some member needs unmet, providing opportunities for more specialized competitors to “cherry-pick” among the co-op’s members. These are serious difficulties for many co-ops; not all of them will be able to define unique products or services.

The general objective has to be that the co-operative links its economy to the member’s economy or household in as many ways as possible under the circumstances: by sharing operating success (through patronage refunds); by offering special products or services meeting specific member needs or interests; by offering products or services in a format or a location that is particularly convenient or meaningful for members; and/or (finally) by developing nonmaterial aspects of the relationship between the co-op and the members.⁵

A general hypothesis would be that a co-op that cannot form a close economic linkage with its members in at least one of these ways—shared operating success, products to meet specific needs, convenient format or location, or perhaps relational quality—will suffer from weak member

commitment. It will not necessarily fail or cease to be a co-operative, but it will be vulnerable, especially to sudden changes and to crises when member support is called upon. Usually economic linkage is clear when co-ops are new and confined to a few functions. As co-ops get larger and more complicated, linkages may be harder to maintain or see. Especially for long-established co-operatives, *transparency* may then become a growing issue.

Transparency

MEMBERS SUPPORT CO-OPS *because they trust that doing so will be in their own interest as well as the interest of other members.* The discussion of linkage, above, related to why and how the co-op is devoted to meeting member needs. The second part of trust, however, is that the co-op must not only promote member well-being; it must also be *seen* to do so—seen clearly, repeatedly, and over time to be making members better off. This question of how members see their co-operative and its activity is the question of *transparency*. While transparency, at one level, has to do with reporting and communications, it goes far beyond the superficial use of information and has implications for the conduct of co-operative business and for the legal, organizational, and technical structuring of co-operative activities. A co-operative is made transparent not only by good communications, but by structures and operations that members can see are designed around their own needs.

Transparency is in fact critical to the long-term survival of co-operatives. It is all too easy for members to begin to take their co-operatives for granted, to lose sight of where they would be if the co-operative no longer existed. The longer a co-operative exists, the easier it is for members to forget why it was created. Transparency, as both an organizing principle and a communications approach, is fundamental to reproducing co-operative membership and loyalty from generation to generation (and even within a

generation). What transparency requires is that members understand not only their co-operative, but also the industry or sector of which it is a part, so that they can see clearly what their co-operative does for them. This is the root of member loyalty.

The trust that members have in their co-operative is a source of economic success and co-operative advantage. Trust means greater member loyalty, which assists the co-operative to be more successful. In more formal language, trust lowers contract, monitoring, and agency costs, effectively reducing the barriers between the business and its customers. Any business that creates trust among its customers will be able to perform more efficiently as a result, but co-operatives have some special advantages in this regard. The fact that they are member-owned and -controlled, and do not exist to create profits for any group outside the membership, means they can more easily be trusted by their members.⁶ This potential co-operative advantage is made real to the extent that the co-operative succeeds in making itself transparent to its members.

It is important to remember that members make judgements about their co-operative not as entirely isolated individuals, but as part of a community of people who have some assumptions or knowledge about each other, who share a similar context, and who think using some common experiences and concepts. In some way, either potentially or literally, they are in communication with each other; we might call this a community of discourse. Because the success of the co-operative depends not only on one's own choices, but also on those of other members, each member is thinking on some level about other members and how they will behave. What motivates them? Can they be relied upon? Will one's own commitment be wasted, or worse yet, taken advantage of? Members need not just a mental image of their *own* relationship to the co-op, but a mental image of *other members'* relationships to the co-op. They need to see what different services are required by different member groups, how these are accessed and paid for, and whether important cross-subsidization occurs; otherwise they may not fully trust their co-operative to be a good agent for their interests.

The more a co-operative requires of its members—in time, loyalty, capital, and so on—the more transparent it must be to them to justify the

level of commitment. Put another way, one method for co-ops to get more from their memberships, to enjoy greater loyalty, to raise capital, or to have higher participation and better leadership, is to make themselves more transparent.

Transparency in Co-operatives

- members are *well-informed*—frequently and through multiple channels—about business, service, and financial results
- members understand the *industry or sector* of which their co-op is part; they can see “through” their co-op to markets, forces, social and economic trends beyond
- members see the different clusters or “pillars” of activity *within* their co-op, the incentives or cross-subsidizations that are built in, and accept the appropriateness of these
- members understand the different *interests or stakeholders* in their co-op

There are many examples of these practices, from many different sectors, times, and places. They always need to be updated and adapted to fit the current circumstances any one co-operative faces. In this sense, there is no “model” of transparency. But there are experiences from which co-operatives can learn.

The original Rochdale co-operative was in several respects a model of transparency. Consider that the Rochdale Pioneers established a principle of co-operative books being open to inspection by members, and of results being presented at quarterly member meetings. Modern versions of such openness and information might look quite different, but the idea of transparency should be a constant. Then consider Rochdale’s famous emphasis on co-operative education. It is well known that the Rochdale Pioneers ad-

vocated the setting aside of a fixed proportion of their surplus for educational purposes. Less often do people ask what *kind* of education the pioneers conducted. While they were involved in general business and management training and in study and discussion of co-operatives, another kind of education stands out: the pioneers operated a reading room and library, and invited in university lecturers (in a day when this was singularly uncommon for working-class organizations) on the subject of *the modern industrial economy and how it worked*. What co-op members most needed to know, in Rochdale, was where their economy was going and how it was affecting them. The implication is that, knowing this, they would better understand the importance of the co-operative, and what use they should make of it.

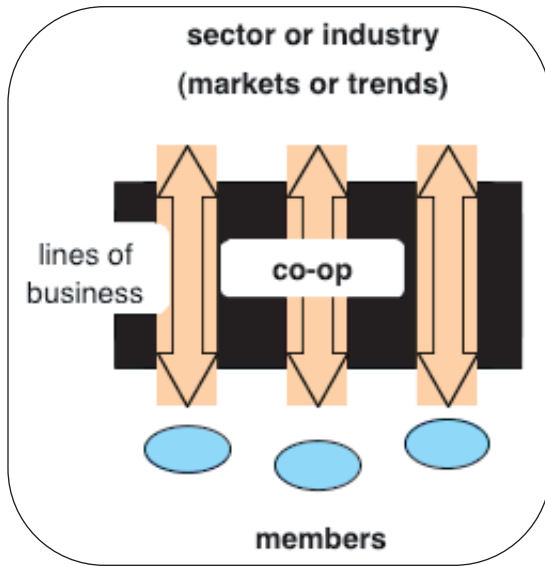
An interesting self-administered test for co-ops would be to examine how well they educate their members about their sector of the economy. Do members understand the issues and trends? Can they see “through” the co-operative to the industry or sector beyond; or is their co-operative a “black box” that stands between them and the market, obscuring the signals, threats, and opportunities that it offers?

The common practice of sale at market prices and payment of year-end patronage refunds is also a matter of transparency. Members “see” the market prices, and at year-end see the savings their co-operative has made. These business policies make transparent the nature of the market, the yardstick of the competition, and one of the accomplishments of the co-operative. By contrast, co-operatives that engage in price-reducing competition actually end up making their contribution to members invisible: because all customers end up getting the same price, regardless of where they do business, the co-op’s performance cannot be measured. This invites free-ridership; it invites members taking the co-op for granted. In such a case, they may not recognize what their co-op did for them until after it goes out of business!

In a quite different sense, New Generation Co-operatives epitomize transparency. The contractual relationships in an NGC ensure that all members have clear obligations. Members’ investment is proportional to

their use; their refunds are proportional to use; and all of this is laid out in contracts whose terms are standard and transferable. In this case, transparency is high because (a) the co-op has but a single purpose, and (b) contributions and benefits are proportional, such that little cross-subsidization can occur. Members do not worry that they will be disadvantaged compared to other members, that others will benefit at their expense from the co-op, because the rules are clear and firm. Not only are the internal mechanisms of the co-op transparent: so, too, is its connection to wider markets.

Figure 4: A Transparent Co-operative



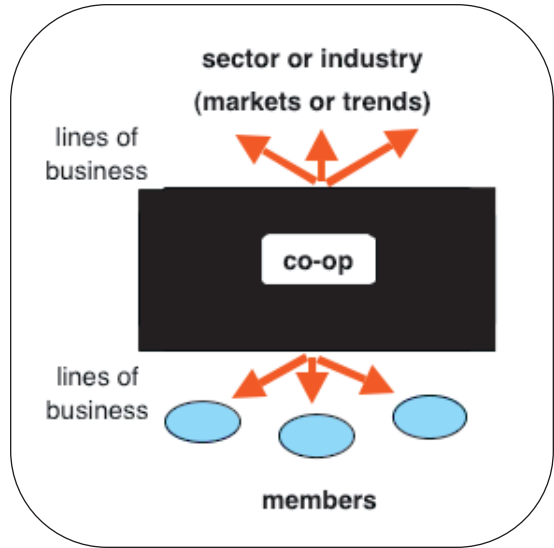
Because NGCs tend to be specialized in niches where particular kinds or grades of particular food products are involved, the

members' attachment to their co-op is also an attachment *through* the co-op to specific niches beyond. In effect, an NGC provides a targeted connection between a particular group of members and a particular market need. The need, the opportunity, the premiums or incentives in the market are passed on through the co-operative to members, who understand what they must do to fill that niche. This, too, is a kind of transparency.

Such models can be contrasted with what might be called a "black box" co-operative (Figure 5)—a large, complicated, opaque organization. It likely involves many different lines of business, with cross-subsidization among these in ways that are not apparent to the outsider. It deals with its members, and it deals with wider markets, but each transaction is limited in scope: the members can't "see" the market, or the sectoral trends, pres-

asures, and opportunities, through the co-op. It is probably natural that older organizations tend to adopt some of the features of a black box with respect to their members. Historic measures, new policies, and adaptations are not well understood by members, or well explained. Compromises and ambiguities accumulate. Tensions (for example, between members with different needs) are avoided. All this is in stark contrast (for example) to the clarity of the NGC, where expectations and relations to the wider sector are spelled out in black and white on the membership contract page. Not every co-op can be an NGC. But probably every co-op can find ways to be less like a black box to its members.

Figure 5: A “Black Box” Co-operative



Transparency and Member Diversity

AN IMPLICATION OF THE DISTINCTION between transparent co-ops and black-box co-ops is that the different needs of different groups of members need to be recognized. A co-op that caters only to the common denominator among diverse members may be missing important opportunities to develop services designed to meet particular needs. Co-ops need to resist an understandable tendency to homogenize their memberships, to ignore or downplay difference. To resist this

tendency, they may need to be active in seeking out, highlighting, and understanding differences among their members.

It is not enough, however, to offer different services for different members. Depending on the circumstances, members may need to see how the parts of the co-operative that concern them most are organized, how they work, and how the benefits or results from those parts of the co-operative flow. Different members may need to see or be involved in different streams of the co-operative's activities. This won't be the case for all co-ops: it will depend (a) on the intensity of particular member interests, and (b) on the need of the co-operative to obtain particular commitments from members. Co-operatives that need members to make strong commitments, whether of input, patronage, or investment, may have to reorganize themselves so that members can participate in the parts of the co-op that interest them. In an extreme case, a co-operative whose members have highly divergent interests might be better off breaking up into a number of organizationally distinct (but perhaps still connected) co-operatives.

In this spectrum of possibilities—from a unitary co-op, to a co-op with different streams of activity in which members can be involved, to a group of distinct co-ops—there are interesting terms and examples for the middle ground. We can think of the various streams of activity in a co-op as pillars, as “threads,” or (the term used in Danish co-ops) as “fingers.” The key concept is that co-ops may reorganize themselves around clusters of activity in such a way as to enable members to opt in or out of particular activities, to make special commitments to or investments in the activities that interest them. Such a structure appeals to a contemporary culture of choice and voluntarism on the part of economic actors such as consumers; it enables them to develop a close identification with those parts of the co-op that most concern them. This structure is also a potential solution to problems of capital and member commitment. There is some evidence that a thread or finger of activity in a larger co-operative system may, like a New Generation Co-op, attract high commitment from particular groups of members. Using streams of activity, clusters and structures like threads or fingers, to make co-ops more transparent is an option that more large co-ops might consider.

Federations are also a classic co-operative device to deal with issues of transparency and member commitment. People who do not understand co-ops very well often dismiss federations as slow, cumbersome, and problematic. They are missing an important point. A federation is a structure designed to create transparency around issues of *local accountability* and *central efficiency*, which are of great significance for member commitment and loyalty. For this reason, a federated co-operative structure can often count on better member support and be more resilient and viable than a centralized co-operative, which may look simpler on paper. A centralized co-op is, frequently, the classic black-box organization: inputs go in, results come out, but no one outside, including the members, can fully understand the process. Particularly where the co-op has many different lines of business (and above all, where these involve cross-subsidization), a centralized structure may encourage members to stay aloof and uncommitted. By contrast, an *effectively structured* federation can achieve many of the economic advantages of centralization, plus an additional advantage: member loyalty and commitment to autonomous local organizations that express members' sense of place and identity.

Cognition

LINKAGE IS ABOUT SERVING MEMBERS; transparency is about making it clear that members are served. The third aspect of the co-operative relationship with members has to do with how the relationship changes over time—because no co-operative relationship stays the same for long. Co-operative relationships must change constantly as the business or service sector and the membership change. The concepts of linkage and transparency may help guide co-operatives to select *what kinds* of change are most appropriate from among the known options. But by themselves, the concepts of linkage and transparency do not say much about *how* co-operatives change, nor how they identify the options for change in the first place. In today's world, co-operatives have to aim not

only to create a structure (or relationship), but even moreso, they have to plan for how they will change over time.

Change can happen *to* an organization, as an unconscious process, but this is not always desirable. Change should be undertaken by an organization as a *thinking* or cognitive process, involving imagination, discovery, systematic investigation, and pragmatic choice among well-understood options. This thought process should presumably involve more than just the individual mind of the CEO. Thinking, learning, imagining, and investigating are functions that need to be shared, and to some extent diffused, in a successful organization. They are to a considerable degree functions *of the organization* and not merely of one or a few positions within it. Organizations such as co-ops need to pay attention to *how they think* about their surrounding reality, themselves, and their future.

Perhaps surprisingly, paying attention to *how co-ops think* leads to additional insights into successful co-operative business and service strategies.

A basic cognitive model for co-ops involves several main elements. The co-op must have a sense of what it is, where it came from, what it does, and where it is going—a sense of identity, or to put it another way, an organizational culture. It must also have a sense of what its mission is in relation to its sector and industry, and its members. To do this requires a mental model of who the competition is, what the issues and trends are, and what the co-op aims to do about these. It is not enough, however, that such mental images exist. For them to be useful to the co-operative, they have to be *shared* by the different groups that need to play a role in the co-operative's success. They have to be shared, in other words, by various stakeholders. Managers who deal full time with directing the co-operative will have a more detailed understanding than members who deal occasionally with the co-op; but the co-op will be stronger and more cohesive if managers, members, elected leaders, staff, and other stakeholders buy into similar or shared visions. Finally, a cognitive model for a co-op involves the mechanisms by which the co-op refines and tests its understandings of itself, its mission, and its sector: mechanisms for collecting and analysing information and ideas (research); mechanisms for maintaining a sufficient degree of consensus (broad, periodic discussion and revision); and mecha-

nisms for trying out new ideas and new approaches on a small scale (innovation). Small-scale experiments with new ideas are important, because co-operatives can rarely risk radically new approaches without testing them first.

Cognitive Models in Co-operatives

- the co-op operates with a clear mental *model of itself* (sense of identity) and of its *role in the wider sector* or industry (mission)
- these models are *widely understood and shared* among stakeholder groups (members, elected leaders, managers, employees, others)
- the co-op undertakes *research* in an organized way to analyse changes in its membership and its environment
- organized research activity is connected to the way the co-op regularly *revisits, discusses, and revises* its identity and its mission
- the co-op encourages *innovation* and has mechanisms for innovations to be tested on a small scale

A “cognitive model” as described here is not just a planning tool (though it certainly helps with that function): it is also the glue that keeps the co-op and its members together when both are changing.⁷ In a world where economic change can be rapid and can come in unpredictable bursts, it is dangerous for a co-op to have no common identity and purpose shared by all its stakeholders. The risk then is that the co-op may end up doing something that members do not understand or accept; member loyalty may evaporate overnight. It is also dangerous for a co-op to have an old, rigid, unexamined sense of identity and purpose. Members and leaders may like familiar ways of thinking about their co-op, but if those ways of

thinking are out of step with the environment in which it operates, the co-op could be heading for a crisis it will not foresee. The sense of what a particular co-op *is* and what it is *for* should never be taken for granted.

There are two equally important conditions for co-operative renewal and adaptation. First, the co-op's leaders must have conceptions of mental models of their co-op and their industry that are up-to-date and based on good understanding and analysis. Second, the corresponding mental models held by members and other stakeholders, though they need not be identical, must sufficiently resemble or overlap the models held by the co-op's leaders. There will likely never be a single method for ensuring these conditions are met. Instead, each co-operative will have to find its own approach and its own mix of communication practices, educational activities, research functions, units, and policies that support the cognitive processes of the organization.

The “Thinking” Co-operative in Practice

CO-OPERATIVES ARE PRACTICAL ORGANIZATIONS that are understandably reluctant to spend much time or resources on what might seem like navel-gazing. And yet, co-operatives must nevertheless create public spaces within themselves, where their members and employees can talk openly, learn from each other, and think creatively. Given the inevitable press of circumstances and priorities, co-ops may have to make special efforts to promote internal learning and discussion of the type that is needed. Co-operatives that fail to do so will suffer from a deficiency of imagination.

All organizations must confront the fact that the future is unknown and unknowable. Those that wish to be proactive have to base their ideas about the future on something: a mental model or an intellectual framework; a set of ideas about what is important, and which identifies where the challenges and opportunities lie. All organizations have such a set of

ideas guiding their management decisions. The question is how formal and how open the process is for developing the organization's vision.

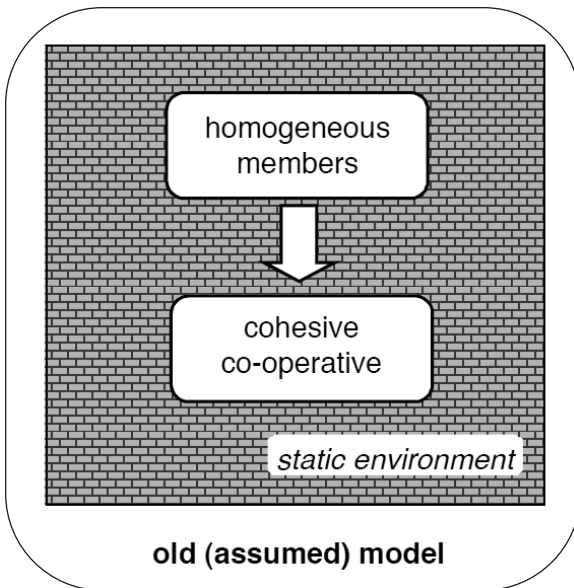
The creation of such a model or framework is integrally related to the function of *research*. We could even say that the essence of any organization is research: research into where the industry or sector is going, what members are requiring, what the competition is doing, what new technology is coming. Without a research-based model, decisions are either based on the past or on hunches and rolls of the dice. An organization is effective when it is able to focus its energies on activities that are ultimately successful: in other words, when it invests its time and other resources into the things that matter the most. Research—the organization's cognitive process—is what tells it which things matter most.

It might be expected that every co-operative (indeed, every organization) in today's environment should have access to an effective, relatively autonomous, yet widely networked research department or unit. Such units might have to be larger or more formal in proportion to the size and scope of the co-operative; small or new co-operatives might have to share such functions through a network, and make use of voluntary contributions. One way or another, every co-operative needs access to research as a condition for its own cognitive processes of planning, policy, decision making, and consensus building.

One implication of an information society, of a knowledge economy, of e-business and related structural changes in corporations, is that knowledge is the source of power. Decision and policy makers in a co-operative need research, good analysis, and interesting new ideas as constant inputs. At the same time, research needs to be widely linked to board, manager, employee, and member training, and to educational activities of all kinds. Research cannot be treated as a matter of distributing information; instead it has to be part of the processes of building knowledge within the organization. To do this, it has to feed into widespread learning. Co-operative education needs to be seen as more than an activity undertaken to satisfy co-operative principles, and also more than upgrading of employee skills; it needs to be an agency for holding the co-operative and its members together and on course. Education, communication, research, planning, and

marketing all come closer together and overlap in a networked world, and in a thinking, adapting, innovating co-op.

The most important focus of research and learning activities in co-operatives has to be the understanding of the industry or sector in which the co-op is situated. Knowledge of the co-op model, of the history of the particular co-op, of its present-day mission and activities, is important, too, but not so much as is the knowledge of the business or sectoral environment. The aim of research and learning is to bring these two areas together: to understand the trends, competition, and opportunities in the industry, *and* to understand the co-op's identity and unique mission within that environment—the trends and opportunities it aims to exploit or reinforce, and those it aims to cope with or resist. Members need a form of this understanding, too, or they will not commit to their co-operative. While the lack of specific co-operative education is often bemoaned (and it is hard to argue there is too much of it), a lack of understanding of the wider economic and social environment is more serious. Like the Rochdale Pioneers, co-operative leaders need to have some faith that if members understand what is going on in the industry, they will understand why they need a co-op.



“Thinking” in a co-operative is also about imagination, vision, diversity, and buy-in by different groups of members. Different perspectives and thinking by different groups of members need to be seen as a source of strength; difference has to be sought after in dealing with members,

Figure 6: Assumed Homogeneity in Static Co-ops

in research and education as in governance and operational strategy. Different members may identify with different characteristics of the co-operative, and this needs to be well understood by all involved, including, as much as possible, the members. Different members have different identities, and the co-operative needs to connect with as many of these as it can. Cohesion—especially in a pluralistic and rapidly changing world—comes not from everyone being the same, but from people’s differences fitting together in a coherent way. Coherence comes from communication and from mutual adaptation of people’s views and understandings to fit together with each other. It might sound like these processes are terribly abstract and far removed from the practical activities of co-operative business, but in reality they are closely connected to membership, governance, and education, and also to marketing, to how the co-op’s products and services are defined and advertised, and to how the members or clients are conceptualized and depicted.

Compared to a static idea of a co-operative, a change-based model that allows for member diversity (Figure 7) provides an ongoing mechanism for the co-op to adapt to a dynamic environment. It requires a more sophisticated understanding of members and how to serve them; it offers opportunities for greater innovation.

Where a co-operative is closely linked to its members; where its operations are transparent to their view; and where the members and the co-operative share similar mental models of what is happening in

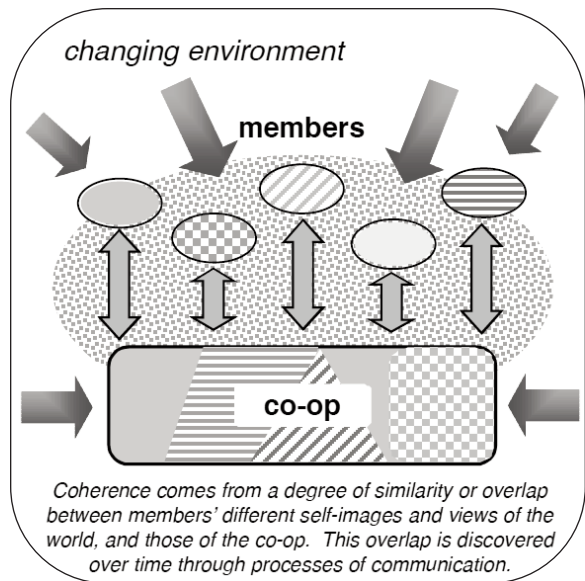


Figure 7: Change, Member Identities, and Cohesion

their industry, we can think about the co-operative and its members as being co-ordinated in a way that goes beyond the normal models of member participation in governance. We can imagine, as a thought experiment, a co-operative where the main involvement of members is symbolic or virtual—where members and their co-operative interact *primarily* through economic functions such as marketing and ordering, through communication, information, and shared values or ideals. In such a hypothetical case—a co-operative of virtual member participation, so to speak—member voting and governance might remain important in a latent way. Members might need to know that they *could* exert rights of ownership and formal control if they wanted to. But it would not be voting and formal governance that would define the relationship with members. Instead, it would be shared understandings, maintained by constant adaptation and communication, by repeated small exchanges and experiences. Such a thought experiment is more than merely interesting. It may in fact resemble some successful co-operatives today; and it may help explain those successes.

Capital, and Other Elements of Success

A CO-OPERATIVE THAT IS “LINKED” WITH MEMBERS in the way described above, whose practices and policies are transparent to them, and that thinks, as an organization, about its future, has distinct advantages over conventional business models. Instead of being seen as a marginal kind of business that has less access to capital and more onerous obligations than its competitors—dare we say this is the standard view of many economists?—a co-operative has powerful advantages because of its integrated, flexible, and dynamic relationship with its members. In the best of all worlds, co-ops can integrate members’ economic activity, their purchases, or their production, in ways of which other businesses can only dream, to obtain efficiencies or quality premiums no other form of business can match. Of course, reality will only ever be an

approximation to such an ideal, but by focusing on its relationship with members, any co-operatives can realize some of the benefits of the co-operative model. In the general untidiness of the real world, certain characteristic kinds of problems do complicate this task.

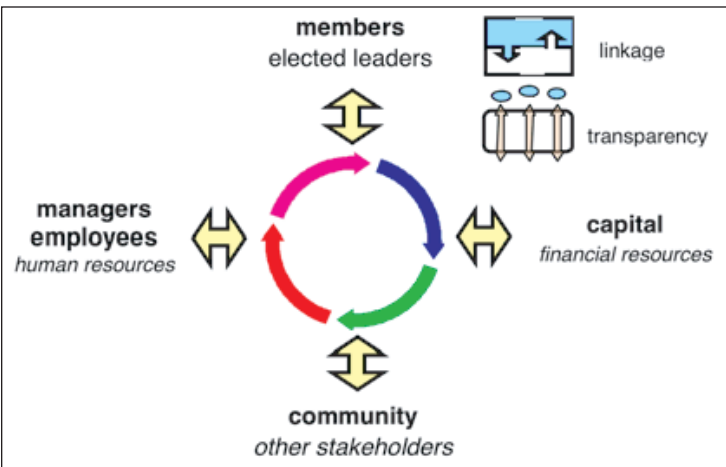
Capital. The subject of capitalization in co-operatives, widely debated in recent years, is a topic for another publication. What needs saying here, however, is that capital is not necessarily the first or most important ingredient in co-operative success. Indeed, good capitalization can be seen as a result, not a cause, of effective co-operative behaviour. Good economic *linkage* with members, in a carefully nurtured and developed relationship, can help generate the surpluses that capitalize a co-operative from within. Good *transparency* can be the key to persuading members to invest, themselves, what their co-operative needs, over and above any patronage refunds and other accumulations. And good strategic planning—good *cognition*—by the co-operative can ensure that it invests only in what is needed, and does not undertake misdirected or excessively ambitious expansions. In other words, proper cultivation of co-operative relationships and behaviours can sometimes solve capitalization problems, even before they arise. Occasionally—perhaps more than occasionally—co-operatives that believe they are short of capital may in fact be short of linkage, transparency, or cognition. In such cases, it could be extraordinarily risky to put capital into organizations where the basic member relationships are shaky.

Employees as stakeholders. Along with financial resources, human resources are one of the classic “factors of production” that go into the success of any economic undertaking. As in any organization, employees in co-operatives ought to be satisfied, well trained, and have good working conditions if the organization is to reach its potential; and increasingly—in a changeable and knowledge-based economy—they need to be a constant source of innovation, new ideas, new projects, and new configurations. But employees in co-operatives have an additional importance beyond the ways in which employees are important to other enterprises. Employees are also the most common interface between the co-operative and its owners. This gives them a significant role to play in building, maintaining, or changing the co-operative’s relationship with its members, which, it has been argued

here, is central to the co-operative’s success. The values and cultures of various co-operatives have often included employee participation in expanded ways. Demographic trends such as an aging population and increasing competition for educated young employees may mean that, in future, human resources will be a greater limitation on some co-operatives than financial resources.

Member diversity. Along with the classic factors of capital and labour, members can be thought of as an additional “factor of production” in co-operatives: the right kind of members have to join or develop, and have to be integrated in the right kind of way with the other factors of production, for the co-operative to perform optimally. Even customers in nondemocratic enterprises are not passive—they exercise choice and interpret messages from the firm in their own ways—but in co-operatives the customers (that is, members) should be even less passive. As implied by the concept of linkage, their economic behaviour and that of the co-op should, over time, become closely co-ordinated with one another. As implied by transparency, members should “see” and understand their industry, their co-op, and the internal understandings basic to it. And members need to be part of the cognitive process of the co-op, such that their views of the co-op and its role and the views of its leaders resemble one another.

Figure 8: The Co-operative Factors of Production



The great challenge for co-operatives is how to deal with differences among members. It may seem that attributes of the member relationship such as linkage and so on are easier to achieve if differences among members are ignored or minimized, but this is likely wrong. Ignoring differences reduces the extent to which the co-operative can form close linkages with members, reduces the transparency of the organization (because real differences of interest are obscured), and reduces the quality of input into the cognitive processes of the organization. Not all diversity is good, but diversity is needed, and the diversity that exists needs to be managed. Co-operative business no less than co-operative governance ought to engage different member perspectives and interests. Constant communication to explore, reconcile, and adapt to these differences may be more important to the member relationship than any particular mechanism of member involvement—more important even than formal meetings and voting.

Leadership. Co-operatives have different strengths than other kinds of enterprises, and require distinctive kinds of leadership to take advantage of these opportunities. During the last half of the twentieth century, co-operatives were particularly concerned to develop the quality of their management. Some have observed that organizations in today's environment are increasingly in need of leadership more than management.⁸ Leadership can come from elected leaders or from people in hired positions; its functions revolve around motivating people, inspiring and supporting them, developing a shared vision to which they feel commitment, and shaping strategic directions. In the terms used here, leadership is critical to making cognitive processes work in organizations: it is not enough that leaders think; they need to know how to help organizations think. In providing guidance, and in fostering thinking, leaders in co-operatives have to be advocates of the central importance of the co-operative's relationship with members. Whether they employ ideas similar to the notions of linkage, transparency, and cognition outlined here, or employ different ideas, they need language and concepts that describe strategic directions appropriate to the strengths and characteristics of co-operatives.

From time to time, the language and the concepts for strategic guidance of co-operatives need to be renewed and made new. The concepts presented in this booklet are one contribution to that task. Ultimately, it is a task every co-operative must undertake for itself in its own way.

About This Booklet

THE CONCEPTS IN THIS PAPER arose out of a decade of discussions and exchanges in the interdisciplinary environment of the Centre for the Study of Co-operatives at the University of Saskatchewan. They owe debts to people and publications too numerous to be named in a document of this length. The thinking was especially influenced by analyses of experiences of co-operatives during this time, including the problems of certain North American agricultural co-operatives, the successes of other co-operatives, and the distinctive structures of New Generation Co-operatives. In part, the concepts developed in this booklet are attempts to explain why some of these co-ops thrived and others failed, why some could count on member loyalty and others not, why some found needed capital and resources and others had difficulty doing so.

The ideas presented here are also testimony to why theory is important and why those concerned with co-operatives should pay attention to it. Among the bodies of theory that contributed to the ideas in this booklet (often second-hand, through others' work) are game theory, agency theory, new institutional economics, complex-systems theory, postmodern and postcolonial cultural theory, feminism, critical sociological theory, network and neurological theory, and ideas about consumerism, globalization, the new economy, and other subjects. Theory is not a substitute for knowledge of what exists. It is, however, the form of disciplined thought needed to use the imagination systematically.

The key terms used in this paper come from a variety of sources. Economic linkage draws from German co-operative thought, and is partly a rendering into English of the concept of the "promotion principle" (Förderauftrag): that is, the purpose of co-operatives is to promote the business or the economy of the members. This concept was developed in postwar West German co-operative thought by Georg Draheim and others. Trans-

parency is a widely used term often associated with accountability. Ian MacPherson has remarked that he considered trying to have the word included in the 1995 statement of co-operative principles by the International Co-operative Alliance. Cognition as used here draws on models of individual human consciousness, particularly those of Antonio Damasio; the concept of cognition has been applied to organizations by other writers.

Endnotes

1. Ian MacPherson, *Co-operative Principles for the 21st Century* (Geneva: International Co-operative Alliance, 1996).
2. See Brett Fairbairn, “How ‘Social’ are Co-ops? Tensions, Transitions, and the Social Economy of Co-operatives in Canada,” *Économie et Solidarités* special issue on L’Économie sociale au Canada 33, 1 (2002):112–30.
3. On the importance of trust in the economic success of co-operatives, see Roger Spear, “The Co-operative Advantage,” *Annals of Public and Cooperative Economics* 71:4 (2000): 507–23.
4. M. Fulton and K. Giannakas, “Organizational Commitment in a Mixed Oligopoly: Agricultural Cooperatives and Investor-Owned Firms,” *American Journal of Agricultural Economics* 83, 5 (2001):1258–65.
5. Nonmaterial products may be described by the concept of “relational goods”—goods for which members are willing to pay more because they perceive the goods to have a special quality due to how they were made or distributed. Organic foods, free-range chickens, cruelty-free cosmetics, fair-trade coffee, union-made garments, and so on are examples of such goods that are meaningful to various groups of consumers. Supplying a good or service with the exact relational qualities desired by members is analogous to supplying goods of the material grade or quality they desire.
6. Spear, “The Co-operative Advantage.”
7. Brian J. Loasby, *Choice, Complexity, and Ignorance: An Enquiry into Economic Theory and the Practice of Decision-Making* (Cambridge; New York: Cambridge University Press, 1976).
8. James Kouzes and Barry Posner, *The Leadership Challenge: How to Keep Getting Extraordinary Things Done in Organizations* (San Francisco: Jossey-Bass, 1995).

