

# **Becoming a Co-operative with Self-Organizing Process: The case of Happy-Bridge Co-operative**

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## **Abstract**

The purpose of the research is to explicate self-organization process in the organizational conversion from a corporation to a co-operative. We conducted a case study focusing on self-organization through the participant observation of Happy-Bridge Co-operative (hereafter HBC). The results are as follows: First, converting a corporation to a co-operative is the outcome of highly complex interactions. It is a very dynamic process of conflict between two different organizational principles, i.e., association and business, and is also a strategic choice for the organization renewal. Second, after conversion to co-operative, the new dynamics has been created in the process of adaption to co-operative principles and systems. Third, the hidden conflicts within the organization have been gradually emerged and materialized. In this process, HBC has been able to find the new opportunities for innovation; nevertheless it is likely to face further conflicts and contradiction promoting innovation. Becoming a co-operative is not only the changes of ownership structure, but also the fundamental transformation of organization. The management of HBC cannot lead new innovations, and the members cannot completely learn new routines. Theoretically, this study explains how self-organizing process makes co-operative conversion viable by means of continuous change. Also we can suggest practical implications that converting process of co-operative provides new chances of innovation through the self-organizing process.

Keywords: organizational change, self-organizing, emergence, mutualization, Happy-Bridge Co-operative (HBC)

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## I. Introduction

In 2013, Happy-Bridge Limited Corporation has mutualized as a worker cooperative with 67 members. A newly named Happy-Bridge Co-operative (hereafter HBC) is the first case of mutualization in Korea, which was a SME (small and medium sized enterprise) with the annual turnover \$26 million, net income \$1.3million in 2012. Although there have been many mutualization cases, most cases were motivated by the incidence of bankrupt, or similar reasons (Herman, Sousa et al. 2012). In Korea, some companies convert to worker self-managed companies, notably *Ujin Traffic (bus)*, *Dalgubul Bus*, *Samsung Traffic Corp (bus)*, *Kitchen Art (furniture)*, etc, or employee buy-out, i.e., *Kyunghyang Shinmun (daily newspaper)*, *Seoul Shinmun (daily newspaper)*, etc. But these cases usually are that workers overcame managerial crisis with their own efforts. The well-known mutualization cases of corporation are MiGROS (Consumer Co-operatives of Switzerland) and John Lewis Partnership (employee-owned company of UK) in the West.

This study began with simple questions: Why does a corporation convert to a co-operative? What, then, is happening after mutualization? Mass-media is focusing on entrepreneurship and good-will of founding members, but it is difficult to explain by means of certain human being's virtue only. Because HBC has a stable business model and has made healthy revues and continous cash in-flow successfully, so this major change might cause risks to the management. If you understand organizational change of HBC through the perspective of continuous change (Weick and Quinn 1999), you will explain this case to another way. Further you would also explain various events of changing process, and find how members accept this changing. In preceding research about mutualization, they usually don't study details of organizational changing process. In North America's mutualization cases (Herman, Sousa et al. 2012), they introduce many conversion cases, but focus on demutualization cases. On the other hand, the research on John Lewis Partnership underlines the dynamics of democracy in organization rather than process of organizational change (Cathcart 2009). Korean researches about worker self-managed companys (Back 2008; Kim 2009; Lee 2012; Hwang and Choi 2013; Cho 2014; Kim 2015) also can't reference to HBC, because their objectives are overcoming crisis and normalize operations.

Through HBC case study, we can find mutualization is fundamental change for not only ownership and governance but also organizational structure and business strategy. By unexpected changes, organization was changed to new form by chaos and conflict. We will study mutualization case based on the organizational change perspective. We will analyze organizational change thourgh process perspective, and explain organizational change using metaphor of emergence and learning. The first objective of this study is describing

mutualization case of HBC. And second objective is suggesting organizational change model to explain this case. By using metaphor of emergence and learning in organizational changing process, we will suggest theoretical implications to researcher of organization and practical implications to manager of Co-operatives.

## **II. Case Study and Participant Observation**

The case study method is efficient research method for describing deeply specific social phenomenon and for answering meaningful questions about real world events (Yin 2014). There are not many studies about mutualization of corporation being in the black like the case of HBC, so the case study method is a suitable method for deriving the theoretical implications (Yin 2014). This study used the participation observation method to understand HBC in a comprehensive and holistic view (Jorgensen 1989). By using the participation observation for case study, we could understand the case of HBC more deeply from the insider point of view. However we had to deal actively from time to time, depending on changing circumstances in the research process, and had to change our research point (Jorgensen 1989). In this process, we found that organizational change of HBC is very complex and initiated by variety reasons. We also found mutualization is not just temporary event; it is a mutual process. Thus, we have to pay attention to explain process of organizational change.

We regularly visited HBC (HQ (Head Quarter) in Seoul, a factory in province, franchisee, outside lectures and other venues) from October 2013 to September 2014, especially from January to February in 2014; we resided in HQ to collect the data. We wrote field notes (observation journals, proceedings, interview included) and conducted informal interviews with various members (during dinner, lunchtime, and transportation). We could assess various types of documents (statistics, reports, board minutes, the General Assembly Kit and etc) and participate in General meeting, board meetings, various committees and council works. After ending the participation observation, we conducted formal interviews with stakeholders of HBC (restaurant franchisees, external consultants, suppliers, Korean Workers Co-operative Federation) and supplemented information not identified during participation observation. Also we received verifications from stakeholders to improve reliability of information acquired through participation observation (Stake, Savolainen 1995; Stake, Denzin et al. 2005; Creswell 2012; Kim 2013). Additionally during one year (from October 2014 to September 2015), one of researchers could be involved in direct planning, marketing strategies and training programs of HBC while working as a researcher in the HBM Co-operative management institute under HBC, and the researcher directly utilized his experience of HBC to develop a clear and verifiable theories with reality and relevance (Eisenhardt, 1989; Maxwell, 2012).

We try to analyze collected data of HBC using inductive method of inquiry. We want to view the ‘phenomenon’ itself literally without prejudices (Van Manen 1990). Data were organized chronologically in accordance with the passage of time, and key topics have formed the order through harmony and conflict. Although the mutualization of HBC occurred by first general meeting in 21th Febrary 2013, but it is just a prelude of numerous changes that made by understanding, conflict and cooperation. Through continuous changing process, HBC became a different organization and the changes also made new changes. We also obtained inspiring idea from other studies to explore a case study of HBC - the study by Plowman, Baker et al. (2007) explain how unintended small change can make huge change of whole organization, Stacey (2002) suggests new approach to management using complexity theory, and MacKay and Chia (2013) carry out a case study as unowned process of strategies view. The results of analysis were revised repeatedly during writing the article. The data continuously created new orders and interactions with the data continued until the end of the study.

### **III. Mutualization of Happy-Bridge**

#### **Establishment of an alternative company**

Since its founding period, HBC has not grown and established by one entrepreneur or a visionary leader. In the growth process of HBC, many members iteratively came together to scattered. Thus many stories of founding have been scattered, and are not recored enough. The founding members have different memories by themselves, and they usually call that time to ‘the age of primitive tribes’. These characteristics were the factors that form a unique group governance of HBC, which also have implications for mutualization. Although founding members of the HBC have a keen interest in social issues and have been involved in the firm from their young ages, their interests, participating manners, use of time and space was different from each other. At the first time, the founders started the business in Seoul and Daejeon. It basically was to make a living. The team from Daejeon had delivered the processed ingredients in small dining restaurants. It was the first success in the business. The teams from Seoul had joined this business and delivered them to metropolitan area. It also was success, and the two teams had contracted business partnership together. In 2004 the ‘mad cow disease’ crisis, the merged team had overcome the crisis by developing new franchise brands ‘Hwapyeongdong King Noodle’ jointly. It was beginning of a long walk together. For the full-fledged franchise business, firstly the offices in Seoul are combined, and then factory in Daejeon also was integrated with Seoul office. ‘Food Core Corporation’ was born; this is first official company of HBC. Yet, the new firm was subjected to a liquidity crisis so the financial staff and organizational personnel had to be scattered back to their survival. Whenever payday comes,

managers had to go around collecting bills to pay the salaries of employees. If they couldn't collect enough money, executives received a card loans in order to give a salary. Always young employees received a salary first, and executives could be paid once every two months. The financial officer, who joined Happy-Bridge (HB) at that time, remembers as following.

*“At that time, I joined newly as experienced accounts officer. After a few days, payday came. But the company account was empty. So I asked executives to help. They said, ‘new comer should not go out’. I received salary alone in the all staff. A month later, the company account was also empty. I had to ask again. Managing Director just smile and he naturally paid me a part from his credit cards loan. More surprise thing was nobody asked me what happen, despite not being paid salaries. And nobody was left the company. Frankly speaking if somebody left company, we didn't enough money to give severance pay at that time. On the other hand that was a good thing. In retrospect, that was truly an outrageous situation. But it was daily routine.”*

In 2010, 'Noodle Tree', which is a result of change in the brand concept to Season Two, was succeeded in the market. Each member had been scattered converged again under the name 'Happy-Bridge Co., Ltd.' for a full-fledged franchise business. After then merchants of 'Noodle Tree' had sharply increased, HB was grown into a medium-sized franchise company. The growing experience and active response to the external environment was a driving force to mutualization under which the return is kept stable.

### **From an alternative company to a co-operative**

*“Since the founding period HB had been away from ideology of capital and competition, and closer to such keywords as– ‘alternative company’, ‘People-centered enterprises’, ‘The Company of recognizing the value of work’. In the view of corporate culture, HB have been maintaining de-authoritarian and a horizontal relationship with the consciousness as an economic community. Also HB has grown business throughout the history of solidarity and intergration.”(Hankyoreh 2014)*

HBC has explained its mutualization as “HB changed into a good fit clothes.”<sup>3</sup>. President of HBC, Song In-chang suggests three reasons why HB decided to mutualize<sup>4</sup>. First reason is to maintain their vision and mission. As the company has grown sharply, the number of employee

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<sup>3</sup> the promotional brochure of <Noodle Tree> (2013)

<sup>4</sup> Nanumwoori Social entrepreneur forum (2013.03.04), National Assembly Forum for the activation of co-operatives (2013.06.04), The course for Social enterpraise learder of Sungkyunkwan Univ (2014.04.12), Joyful union (2014.06.25)

has increased and it has been hard to understand the founding idea of the company. Co-operative is a good solution for matching the mission and organizational structure of the company. Second reason is to improve productivity and competitiveness of company. Franchise industry is labor-intensive, which employment cost accounts 60% of selling and administrative expenses. Founding members have tried to improve productivity and competitiveness by giving a sense of security to employees and inspiring ownership. Third reason is for activation of co-operative movement. HB has grown for being 'people centered company' through twist and turns over the past 10 years. On the basis of these experiences, HB wants to contribute to spread "people-centered corporate" and to be well-rooted workers cooperatives in Korea. The mutualization of HB is 'A natural change worthy of the corporate culture and intended selection of the strategic management team'.

The first consideration of the members of HB was not a co-operative, but rather an alternative to companies. The members of HB have adapted to actively change in order to survive in the market competition. Because they had common values, they were able to become one among the conflict and adversity. Since they first started a business, they promised that they will make "a company to cherish the value of labor". The business representatives still carefully keep the first mission statement that was created with the President. They had tried to make the firm an alternative company that does not pursue only profit. Thus, in order to explore various solutions, asking for advice and listening to talks, until that they met workers co-operatives. However the co-operative was more like a petty community, so the representative team were determined that it is not a realistic model. The representative team had established the direction of intergration corporation Food Core Co. Ltd as the "alternative company to pursue the real food", and agreed to spend revenue in good will. When the firm was considering a conversion to social enterprises, the representative team discovered the possibility of co-operative to succeed in business after visiting Bologna. They began to earnestly consider mutualization, since co-operatives is emerging as a new topic of the organization. The team discussed a wide variety of possible changes in post-mutualization (ex. the founding philosophy, social influence of the company and risks on the business and new opportunities). They also discussed practical issues after mutualization, and visited the co-operatives in Europe to study feasibility. Nevertheless, it was not easy to agree on when and detailed method for mutualizing. Some members insisted that it is still too early while others said, 'we agree to the cause of co-operatives, but that is not fit with us.' Other issues in terms of power and honor subtly emerged. However, major shareholders were the first to sacrifice vested interests, and convinced others. Worries and conflict could be negotiated while creating the new dynamic equilibrium as the agreement for mutualization.

In the mutualization process of HB, the conditions of the internal organization and also external environmental factors had a major impact. As business was growing rapidly, new

systems and business vision was required desperately. As new joining staff increased, the idea of 'people-centered enterprise' and 'alternative company' became fainter and the atmosphere of organization also became a mess. On the other hand, the team never was paid stock dividends even once until the end of mutualization. All of the business benefits were re-invested and piled up in in-house reserves. If major shareholders agreed to mutualize, the firm was physically capable of mutualization. How to create the organizational structure, to establish the vision and to allocate the benefits had not been determined yet. This unstable state, led to HB to the 'edge of chaos', cooperative boom that has been blowing from the outside became the starting point of change. The UN declared the year 2012 as the year of the co-operative of the world. 'The Framework Act on Cooperative' was passed by the Korea's National Assembly. Then the social interest of the co-operatives was increased rapidly. The people who were skeptical at first time joined the flow to support the mutualization by involving themselves in the social atmosphere. While members were considering the mutualization, HB case was informed in advance to the outside (Kim, Ha et al. 2012). Thus HB received attention by mass media, before having the 'inaugural general meeting'. The internal conditions and the external environment were supported, even though there was also internally a lot of discussion with respect to the mutualization. It was possible to determine the mutualization unanimously of fifteen shareholders.

### **At the edge of chaos**

At the 'inaugural general meeting' of HBC, The members elected a board of directors directly, and the Board of Directors were configured three existing management and three non-management. Organization had been restructured to fit as the cooperatives. The new organization had made up the board, council and various committees, and formulated communication channels for giving the opportunity of management participation to member. The new organization carved definition and seven principles of co-operatives at the entrance located in its headquarters office and named the meeting rooms as core values of HBC – happiness, human, collaboration, to coexistence. On the wall of the company, the vision statement that members established together via a workshop to become "a sustainable cooperative enterprise for the employees and customers of economic satisfaction and self-realization" was hung. However, unexpected practical problems began to occur. First of all, on the tax system, problem has occurred. Since the 'Framework Act on Cooperative' has just been entered into force, the government did not have any institutional preparation for mutualization. The National Tax Service (NTS) made the authoritative interpretation to impose a gift tax (200 million Korean Won per member), because difference of stock transfer had occurred in the conversion process. Although it was mutualization, NTS evaluated the mutualization as the

conventional stock trading within the same criteria. HB was not able to register the organization even after the inaugural general meeting. The team also heard that the capital may be regarded as a liability in banking transactions, resulting in possible credit decrease in the credit rating. In Europe, a method of alternative accounting treatment exists, but this method has not been institutionalized yet in Korea. In addition, business partners tended to think co-operatives as civil society organizations. This episode occurred because partners lacked social recognition about co-operatives. However, this is only the tip of the iceberg. The actual difficulty was from internal operational aspects.

After mutualizing, members had expected that many things would be changed. Yet the members couldn't realize actual changes. The reaction of members was disappointing. Although several seminars on the subject were held, not enough empathy has been made for the cooperatives. The recognition of the cooperative between the management and the general members were more different than expected. In the addition, while vertical hierarchy structure has been strengthened in the process of organizational growth, members had been domesticated in passive business method. Management team that led the mutualization had been insufficiently prepared. Because the half of the Board of Directors was non-management members, the contents of the management team of the meeting were discussed again in the Board of meeting. Directors as the non-management lacked of management experience and directors as existing management were also similar in the immature progress of board meeting and agenda setting. The board meeting was held as marathon meeting. Above the board, the council and the various committees (personnel system, education, welfare, business, social solidarity) were induced management participation of members. However, participation in co-operatives activities is recommendation rather than is forced and understand of committee activities is weak. Thus participation rates have been low.

Although there was no major change in the business method, a new organization for co-operatives activities was added to the existing organization. Internally such atmosphere has been formed as 'business activity is more important than union activities.' Co-operatives activities usually were carried out after the working hours by leveraging the time and weekend. However sometimes members also didn't know what to do. HB wanted to change into well-fit clothes called 'co-operative', but in reality it was wearing new clothes over old ones. Although at first glance it seems plausible, it became inconvenient to actually implement the activities yet, dissatisfaction of members came out. As such atmosphere was formed, even people who participated ambitiously in co-operatives activities in the beginning gradually lost the motivation. Also activities of the council and the committee have not been normally held. Transparent communication through official channels is emphasized and informal communication (discussion in drinking party, smoking conversation) has been weakened. This



has led to the disruption of eventual communication. HBC decided the last Thursday of every month to be the day of members. One the day, it was recommended intensively members to carry out co-operatives activities. The monthly co-operatives special lecture were also opened, but it was difficult to invite lecturers. Because, there are not enough exist co-operatives experienced experts in Korea. Management team had participated in studies by creating the Co-operatives Management Forum with the 'Korea Cooperative Institute'. However, Due to not enough resources and low participation rate, the forum could not bring a big effect. Happy Bird was made for members in order to enhance the visibility and to help people by sharing. It is a social contribution program that visits poor villages in the Philippines and supports volunteers. Although satisfaction of participants was high, detailed program were not fixed. In order to expect long-term effects subsequent programs planning were required. After six months of mutualization, external degree of HBC recognition and the expected value of society have been increased, but internally it had been fallen into chaos state.

### **Participation of members and conflict**

Before and after the '1st extraordinary general meeting' in September, 2013, members began to adapt to the new co-operatives system. Before the extraordinary general meeting, president of HBC gathered opinions while having an interview time with each member in groups. While advancing the re-election for the empty audit position, members were able to confirm their role and rights. After the '1st extraordinary general meeting' has ended, while drinking together, to the members confirmed the friendship and the recovery of the relationship that was once deteriorated. 1st extraordinary general meeting as an intermediary process provided an important turning point in union activities. The meeting was an opportunity to re-establish the activities of the council and various committees. A formal communication channel was established, changing ambiguous customs into transparent information sharing routes. The atmosphere which is to actively discuss business issues with management of HBC and to interact by connecting the various relationships between members, began to occur little by little. The business process was formulated systematically. The information that has been severed between departments and job grade was also beginning to open and spread. Over time, co-operatives activities gradually showed results. Members had begun to recognize that the co-operatives activities did not disturb business operation. While members 'adapt' to the new system, co-operative business activities and co-operatives activities have began to form a harmony.

While the channel of official communication was formed and detailed information sharing was being carried out in the management, members began to actively express their thoughts. The changes are surfaced through an external consulting process to reform the personnel /

compensation / evaluation system. When external experts gave the official opportunity to be able to present their opinion on management activities, a variety of issues that were not surfaced until then came out. Even problems that everyone was aware of yet not expressed began to emerge. Management also knew the issues already, but it is important that management team had to receive validation from outsider's point of view and from the raw voices of members. Many of the problems had been accumulated implicitly without resolving, and the members had a lot of misunderstood problems. So far business strategies and context was not shared among the members of the organization. Also some of the information spread through the informal path was also distorted. In addition, result of in-house online survey confirmed that employees with experience of three to five years and seven to ten years, an intermediate group, had dissatisfaction with the "discriminatory treatment between the employees". It reaffirmed that large gap existed among three groups - the initial members, the people that endured together during "transitional period" in Food Core Ltd., and the newly joined people from Happy-Bridge Ltd. that led to the growth of today.

### **Conflict and learning**

In February 2014, the '2nd regular general meeting' was a place to check changes in the HBC with their eyes together after mutualization. Members were able to confirm that the firm has achieved good results in business after mutualization, and were able to determine how to allocate the benefit of company for the first time. "Co-operative innovation" was published as a new strategy, and the Corporate Identity of HBC had been changed. Reorganization of the firm was initiated and positions in the firm have been shifted accordingly. In the second part of the event at the general meeting, HBC contracted MOU with Spanish Mondragon University to establish a HBM Co-operatives Institute of Management, and many reporters and the audience were invited. Members were able to realize that the phase of HBC is growing externally. Management of HBC wanted the members to experience the readily new appearance of Happy-Bridge co-operatives and the management team expected that the momentum would be created in the co-operatives activities.

However, apart from the intention of the management team, members began to understand the cooperatives in their own ways. The members complained that they are not the main character in the general meeting and the roles of members have been marginalized, as external parties were many invited. Also far from expectations of the management team, members already had ownership and had asked a number of voluntary opportunities for participation. Management team was expected that members would follow them voluntarily by presenting a new vision and management strategy. However members made active representation of realistic problems, and requested their rights. The members began to manifest the opinions of their own,

and also asked a formal request of participation in the management and other various rights. Management was embarrassed by the unexpected situation, and even the opinions among the members were divided. Since both management team and members did not contemplate enough about the problems, they could not have concrete solutions. The difference of ideas between each other was also significant. It was difficult to clearly define what the difference between the democratic and the authority-delegated decision-making is. Also it begun to be confused that the role of the management team and the board of directors. Motivation of everyone was flooded, but everything was unclear. Management who led mutualization also had not enough experiences of co-operative. Although such basic philosophy and system of co-operatives as "shared ownership", "democratic decision-making", and "voluntary participation" has been continually discussed, it was not enough resolve the gap between the practice and reality of the problems. Although management has been conceived strategies of HBC, it was not represented in a specific language. Therefore, it was not possible to receive support from the members. The gap between the needs strategy of management and the needs of members still occurred, and organizational dynamics gradually amplified.

Overheated HBC had greeted a new phase through participating in the education programs of Mondragon. Management had the opportunity to participate in the education programs of Mondragon already, but participation of all members was the first time. Total ten times of intensive education has been carried out for the whole staff, as each group consisted of about ten people. Education content has been comprehensive from the basics of cooperatives to features of Mondragon. This became an opportunity to reflect the important part of participation and spontaneity, rights and obligations of members in the cooperatives yet the situation newly became problems within HBC. While the Mondragon education has been carried out, the increased dynamics in the organization had reduced rapidly. The small group education program was practically carried out during three days and two nights together with foreign professors who came from Mondragon. Although most contents were known in Korea already, that program provided a turning point for atmosphere reversal to members and management. The amplified conflict between intergenerational/carrier/inter-regional/duties taking gradually stable, and organization members started to reflect seriously about what co-operatives is. Through the process of surfaced conflict, team leader or administrator felt the need for learning. Until then, the team leaders had been not actively participated in the educational program. However they were voluntarily participating in the online MBA or external courses, naturally providing in-house learning atmosphere in HBC. Due to the changes, management team was inspired. The management team expected that the specific idea would be derived, through a spontaneous discussion about the major problems of HBC. The results created during the time of Mondragon education would also be shared at an 'extraordinary general meeting' that was scheduled in the

end of August. However, in the 'extraordinary general meeting', members usually had select easy theme and avoid the serious debate about sensitive issues. While the critical mind of the members was increased, spontaneous atmosphere to solve their problems by themselves was not ready.

### **Continuous changing and new challenge**

After '2<sup>nd</sup> extraordinary general meeting' in August 2014, the new issue was 'How do we create a new change in the organization?' At first half in 2014, organizational dynamics was superheated by many of the conflict within the organization. Thus many problems had emerged, but management team and members were not prepared to go to lead the new change. "Innovation Committee" was established as a new entity to continuously lead the change. "Innovation Committee" consisted of members selected and appointed by the management team. The given mission to "Innovation Committee" was to lead the new changes of HBC. However, members of the newly constructed "Innovation Committee" were given first mission to "implementation of the strategy" while reflecting the needs of all members. Also they changed the name of the team to the "Strategic Research Group". The group will present a concrete strategic direction to solve the many problems of HBC, and it will carry out the strategy in the newly created organizational dynamics.

On the other hand, the interest of members was concentrated on the changes in the salary system at the end of the year. The personnel system committee started to change the salary system, and they gathered opinions of members. So far, mix of 'promotion system' and 'salary advancing system' were applied to the conventional salary system. The salary disparities of members with similar careers were quite large. Because the system admitted personalized circumstances, the payroll also was substantially swaying depending on variables. Thus adjusting of salary system had been continuously required. However, the result of research made a very sensitive issue. - 'If the new standards are applied to adjusted salary system, the salary of many people had to be decreased, rather than increased.' There were also proposals to increase the overall salary level, but sufficient funds were required. The entire restaurant industry was experiencing downturn, and it could not be guaranteed that the business performance of second half would sustain due to increase in costs. As number of new businesses increased, there were not enough internal funds also. Sense of crisis had spread to the entire organization, so it was difficult to decide whether to increase the overall salary level.

*"Starting the project, I worried a lot. As everybody cannot be 100% satisfactory, we thought how many people could be satisfied. Especially some would inevitably large decrease in their pay. Most of them had largely contributed to the company. Maybe the people who will be*

*increased salary have no problems. But 'more people will be reduced salary' was a big problem. Considering the company, raising overall salary levels was also burden. Since the personnel system committee was also created a proposal on behalf of the members, it also is a very large burden. It is a poisoned chalice, but someone had to put a bell around the neck of the cat. This is because we had to receive the prior consent from the people. Generally we focused on raising the salary of undervalued people. Nevertheless we try to minimize the part of decreasing salary, so we had to only take overall rise. Fortunately, directors in the board meeting had approved the proposal. Although it was unsatisfactory level, members in the general meeting gave me approval too. While we took steps to the individual's payroll calculation, unexpected discontent occurred also. Although the members felt unfair, they had to accept that. This was because the proposal already was passed in the general meeting. Perhaps for the time being, it will continue to be in discussion and additional modification seems to be required. The wrong things would to be compensation. Perhaps we should consider the general meeting agenda more carefully next time. Nevertheless, through such a process, we were able to finish more easily. Because we made plan together and we were determined together. It probably is not even imaginable in corporations. (Human Resources manager of HBC)*

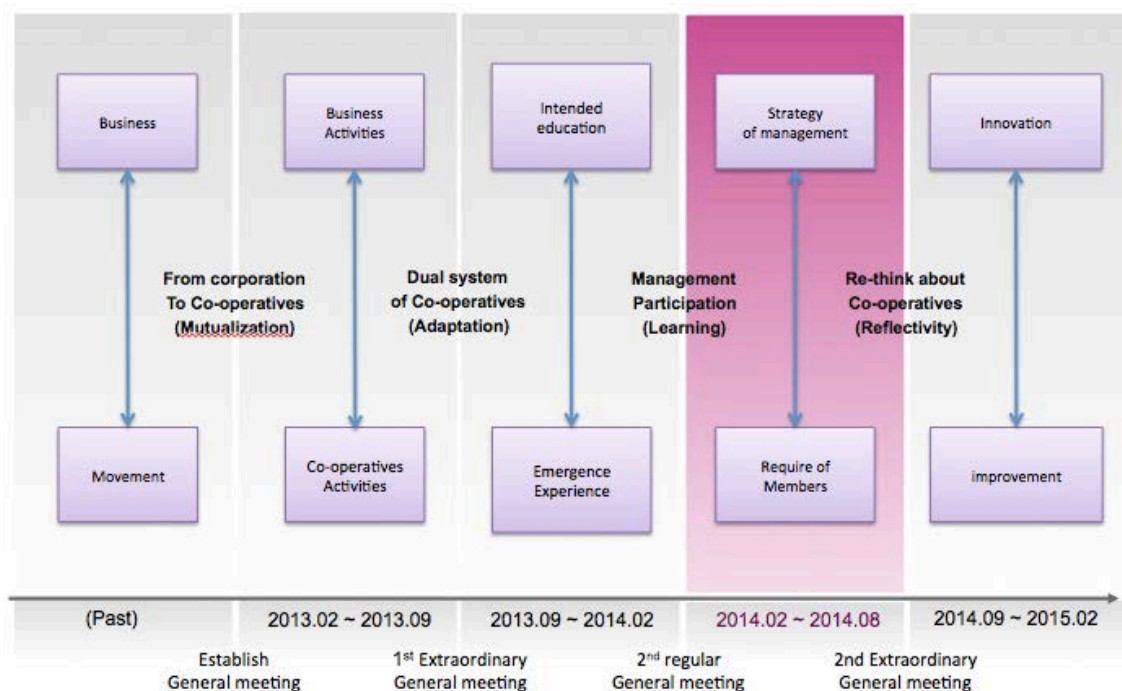
The firm experienced a lot of changes particularly in the business and management strategies since the beginning of 2015. Interlocking system of a business representative and the president of co-operatives has been re-separated. In 2014 HBC had integrated the role to induce more aggressive activities of the members by eliminating the division of business activities and co-operatives activities. However the change brought unexpected result such as overheating of co-operatives activities and the business load of the President. In 2015 the organization separated the roles and activities of the President again, and the business representatives have become focusing on operation of organization. After mutualization, ambitiously started projects (the new business center and Dining Co-operatives in the Area) were also entirely reorganized. The function of the development of new business that guaranteed an autonomous brand development was delegated to all departments within the organization, and new business center was built to reform the Social Business Center. It was decision to focus on the development of social services. New business projects, which individually have planned in 'The Distribution Unit' and 'The Food Service Unit', gained momentum. Also Social Business Center implemented more clear business mission. Also, HBC implemented such new businesses as the co-operative system of "co-operation between the co-operative" beyond the loose solidarity with Ep Coop, Happy Coop, waffle University and SK happy lunch box. HBC has not only changed current internal operation, but also the business strategy and operations in general. HBC is continually changing in order to reborn the new form of co-operatives.

## V. Organizational Change and Self-Organization

### Continous organizational change

After mutualization, HBC has changed through constant confrontations and conflicts within the organization. Complaints have been surfaced, and conflict has increased. The speed of the change has become increasingly faster. Through the events, the organization has become more aggressive and energetic. Through confrontations and conflicts, organization became crucial opportunity to grow continuously rather than those that have been dismantled. It is similar to the traditional research results. That is "Contradictions and conflicts in organization causes new conflicts and drive organization to unstable state. While stable equilibrium state and unstable state, which can be controlled, co-exist at the edge of chaos, new creations and innovation are beginning to emergence." ([Stacey 1992](#), [Morgan and Moran 1993](#), [Levy 1994](#), [Stacey 1995](#), [Stacey 1996](#), [Hutchens 2000](#), [Lewin and Regine 2000](#), [Carlisle and McMillan 2006](#))

[Figure 1] The process of organizational change of HBC



Looking at the changing process of HBC, new problems appeared endlessly. It is possible to check that the contradictions and conflicts have been continuously repeated. Before mutualization, two themes continually struggled with each other; 'Let's earning a lot of money and provided for good (business)' versus 'Establish alternative company (movement)'. As a result of the conflicts was 'the mutualization'. After mutualization, the conflicting theme has

changed views on how to use time - for business activities and co-operatives activities. After adaption to the dual structure of co-operatives, new conflict theme was what led to active management participation. - The voluntary movement by personal experience of members and the participation induction of management team. The difference occurred between the realistic requests of members and intended strategies of management team. Therefore the conflict in organization was gradually increased. However, due to Mondragon education program, these conflicts became a lull. Among members earnest reflexivity about the co-operatives had started. The reflections will lead to innovation of strategy and personnel system in organizational management and business strategy. Through the conflict with the various conflicts of the organization inside that appealed in the course of such change, organization will become mature.

### **Self-organization**

The self-organization process, a product of organizational dynamics, can explain the process of organization changes. Initial HBC bench marked the Mondragon and domestic and international co-operatives, and the management team thought mutualization will be progressed by expected scenario. Through a number of trial and error, HBC could create a unique culture and strategy of the HBC. Self-organization of HBC has continued, in which the many conflicts and problems of the organization has been surfaced, and the temporary stability has also been maintained. Organization changes in HBC can be viewed as a continuous learning process for the new changes, rather than completely ended process. Through new strategic selection and the results, organizational dynamics of HBC is intended to be amplified and self-organization process of HBC is going to be greet a new phase.

Stacey (1992) argued that in order to manage the future, which cannot be predicted, organization have to maintain limited unstable state (which control and autonomy co-exist) rather than a stable equilibrium or unstable state (which cannot be control). This view present a different point of view compared with Eisenhardt and Martin's (2000). Eisenhardt and Martin argue that for innovation, organizations have to consider the importance of incremental change as well as radical innovation, and March (1991) emphasizes the balance between exploitation and exploration. On the other hand, Carlisle and McMillan (2006) argue that the concept of balance is not suitable for complex and dynamic situation. The authors insist that rather than maintaining the balance, we must study how a firm can continue to maintain a limited instability in a dynamic situation. About the argument, Stacey (1996) explains, "For innovation in the organization, we have to move between 'autonomy and control' and use them together - like dance between the edge of stability and the edge of chaos"

After mutualizing, HBC made an effort to find a new order of "management of the cooperative." The management team visited Europe and Canada, participated in seminars with

the Korea Co-operative Institutes, and also established the Institute in partnership with Mondragon. HBC tried to construct governance like Mondragon model, and it was also going through the trial and error to find the balance of co-operatives activities and business activities. Through the experiences, HBC determined that it is necessary to create a new form of organization and culture that matches the HBC. HBC tried to structurally separate the activities of the cooperative business activities. However the relevance between them is still maintained. While the members followed the control of business management as well, they also were asked to participate in management activities autonomously. There existed negative feedback that the dual structure of co-operatives promotes confusion. However, new improvement of management was emerging by management participation of members. Through education programs and personnel system, new ideas to reduce unnecessary education and institutions through the co-operatives activities were suggested. However, sometimes quick decision and strong control are more useful in competitive market of business area. Therefore, we can consider that the dual structure of union activities and business activities can present the possibility of a new management innovation.

According to the result of members' survey in February 2014, the difference between the recognition of the members of HBC was larger. The differences in recognitions can increase the organizational dynamics, and causing internal conflict, but also it can become a driving force to form new creative tensions. The phenomenon also affects the formation of the atmosphere of learning in the organization. We have to recognize the changes in the co-operative and the organization as a learning object. There are also many members with complaints against the continuous changes in the HBC. Nevertheless, an affirmative recognition of the continuous change also emerges to make a good co-operative through incessant learning together. Such increased organizational dynamics create self-organizing to naturally emerge, and elicit a strategic change through unowned process.

## **VI. Conclusion**

Mutualizing case of HBC is unique. HB decided mutualization in stable state of business management. Also rather than one of the pioneer that led the change, the initial members of more than one person agreed with mutualization together. Nevertheless, in the conversion process, members did not participate voluntarily, and management team called "founding members" has led the change from the top down. Despite these particularities, case of HBC presents many suggestions not only theoretically, but also practically.

The case of HBC presents a theoretical suggestion about the process of the organization change. First, recognizing organization change in the process of continuous change may be



easier to understand the situational context resulting from organization changes. In the perspective from the changes in the organization in temporary event, it is not possible to explain the context of the overall changes that occur in the organization. However, in the perspective of continuous change, attention is on the context of the situation that incident proceeds. Secondly, in the process of organization change, the planned and intended changes exist, but also sometimes-unintended emergent changes occur. In order to manage the organization changes, it is necessary to adjust the emergent changes correspondingly. The concept of self-organizing can become the theoretical resources that explain the context of the emergent change and the process of continuous change. Third, even if the process of organization change is initiated in one direction from the top-down, it can form a harmony with the change from the bottom-up, which is newly formed. Then the new order can be formed in the unexpected way.

The study presents the possibility of coexistence that the bottom-up change and the top-down change can form a harmonic rather than looking for dichotomy or rivalry. Fourth, not only organization changes method of controlling through deliberate intervention plan by leader, but also organization changes method of self-organizing through members learn themselves can coexist. The dynamics enables organization to change in innovative directions, and in this process, the strategy of organization will experience unowned continuous change.

In this study, it is possible to give an implication to the practice of co-operatives. The cooperative has dynamics characteristics of movement and business. These dynamics may be a driving force to cause the changes newly or continuously. In addition, mutualization does not mean a temporary organization changes. Rather, it is the process of continuously mutualizing. Mutualization is a not a mere change of only organizational structure, but a fundamental change in the entire organization. Thus, mutualization does not mean that democratization of organization is performed naturally. To be cooperative means that the dynamics of rights and obligations by the members themselves is expanded and passed. Also members must solve various problems through a constant reflectivity. In addition, if it is not discarded, the existing customs and behavior patterns in mutualizing process, can act as a disorder of learning and innovation. Finally, it is possible that excessive expectations and trust of the cooperative also interfere the opportunity of a new change and innovation.

Mutualizing process of HBC is not finished, and the changes continue. Therefore, the results in this study can also be modified in a different direction. HBC has tried many of innovation through the continuous change, and mostly they are still in progress. In addition, in the business perspective, the firm was able to start a new business by capturing new business opportunities obtained by the mutualization. Cooperatives business model called "inter-cooperative cooperation" can expand the business, promoting a new business in a different way from conventional strategic alliances and joint ventures. So far HBC has experienced a lot of

experimentation and a lot of changes. However, it is still difficult to predict what new changes in the future would produce when such changes is gathered. Nevertheless, HBC offers the possibility of the value of the cooperative. Also mutualization will be an important study of the organization research in the future.

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