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**REVIEW OF INTERNATIONAL CO-OPERATION**

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# ICA Committee on Co-operative Research (ICACCR)

A thematic committee of the International Co-operative Alliance, the ICA Committee on Co-operative Research is made up of a network of individual researchers from over twenty countries in Europe, Asia and America.

The Committee acts as a bridge between academic research and the co-operative world and aims to strengthen activities and make the work of researchers more visible.

International Research Conferences are held every two years where possible in conjunction with ICA global meetings (General Assembly and/or Congress) and Regional Research Conferences are held regularly and where possible in conjunction with ICA Regional Assemblies.

Selected papers from each conference will be published yearly in the Review of International Co-operation.

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# Review of International Co-operation

Vol. 98 No 1/2005

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# Editorial



Welcome to the latest edition of the ICA Review.

This issue contains 8 papers presented at three co-operative research conferences held during 2004.

The first three papers are from the *Latin American Co-operatives and the Challenges amid a New Regional Setting* Conference held in Porto Alegre, Brazil in April 2004. The conference was jointly organised by the ICA Latin American Research Committee and the Universidade do Vale do Rio dos Sinos - UNISINOS - (Programa de Pós-Graduação em Ciências Sociais Aplicadas, Instituto Humanitas y Cátedra Unesco). It was supported by the Sindicato e Organização das Cooperativas do Estado do Rio Grande do Sul. (OCERGS/SESCOOP – RS).

Four papers are from the *Future of Co-operative in a Growing Europe* Conference held in Segorbe, Spain in May 2004. This conference was jointly organised by the ICA's European Research Committee along with CIRIEC Espana and IUDESCOOP, Universidad de Valencia.

Finally, the one remaining paper is from the ICA Asia Pacific Co-operative Research Conference held in Chiang-mai, Thailand in December 2004.

This collection is we believe a good representation of the research being carried out in three of the ICA regional areas.

In the first of two papers explicitly focused on financial co-operatives Ruth Muñoz and Griselda Verbeke explore the evolution of financial co-operatives in Argentina over the period 1976 -

2003. The authors show the decline of these organisations and point to a number of contributing factors, including the economic and political context in Argentina and the adverse regulatory regime. They also highlight the importance of governance and increasing competition in the financial sector. However, they also highlight that there have been some successes including credit unions in rural areas.

Our second paper from Argentina examines the role of co-operative networks in blueberry production. The author Clara Craviotti notes that over the past decade the social fabric of the agrarian sector in Argentina has undergone profound changes, with many new producers entering the sector. Her paper examines the character of these new producers and reflects on how their arrival has coincided with the formation of new associations, networks and co-operatives. She employs an “innovative milieu” theoretical approach to analysis the role of local institutions and networks as mechanisms that help disseminate information and knowledge. She shows how the threads that form the network of relationships between the blueberry producers and the different segments of their community are woven and also how such networks are currently redefined because of the tensions within their co-operative.

In the third of our papers from the Latin American research conference Antônio Cruz examines the different methodologies of technology incubators for popular co-operatives in Brazil. Technology Incubators for Popular Co-operatives (ITCPs) operate in about 20 uni-

versities in Brazil. The author traces the history of ITCPs and notes that their aim is to support viable economic initiatives that generate work and income, based on self-management principles, through a teaching process involving the exchange of popular “know-how” and academic “knowledge”. However, he observes that the regional variations of the communities that have been assisted, the institutional differences of the universities involved and the varied theoretical and methodical viewpoints of those taking part have led to a variety of methodologies. His paper compares the different structures and methodologies of the incubators and seeks to identify their common features as well as their significant differences.

In the first of our papers from the European research conference Marie-Josée Lapointe and Adil Belhourari examine the very topical issue of sustainability reports. Their research is focused on finding out if there is any difference in sustainability reporting performance between financial co-operatives and commercial banks. The authors also examine the link between financial and non-financial performance. They based their conclusion on a comparative analysis of 20 sustainability reports of North American commercial banks and financial service co-operatives. Their research reveals that American and Canadian legislative frameworks strongly influence sustainability reports. They foreshadow the need for more research in this area.

In an interesting paper, Roger Spear examines mergers in the UK consumer co-operative sector. The author notes

that there were about 1,400 consumer co-operatives in the UK at their peak in 1904. This didn't change much until the 1960's when the pace of mergers increased. Today there are only about 45 societies remaining, with one large national co-operative and several large regional societies. The preliminary findings of the author's research are that there has been increasing pressures on UK consumer co-operatives to merge. There is clear evidence of economies of scale and an increasingly powerful private sector. However, the author notes, there seems to have been a distinct reluctance to merge spontaneously, thus there was a delayed response to the deregulation embodied in the abolition of retail price maintenance. Preliminary findings indicate that there were relatively few failures, but a more general failure to compete is evident in declining market share. One of the key findings, identified by the author is the important institutional role of federal bodies in promoting mergers. He concludes that federal structures have important competitive features for a co-operative sector.

Iosu Lizarralde and Inazio Irizar Etxebarria, in their paper examine the experience of the much studied Mondragon co-operatives. They set out to answer the question of whether co-operative networks and governance structures can stay competitive in a growing Europe. Their conclusions are that in the future, the number of groups within the Mondragon Industrial Divisions, will tend to be reduced in order to achieve a less hierarchical structure, with a minimum number of layers between the individual co-operative

and the central offices of the MCC. The authors suggest that the sectorial structure should provide individual co-operatives with most of the synergies of a typical corporation, an essential issue the authors believe when competing in a global marketplace.

The authors believe that the progressive relocation of production will result in co-operatives recruiting staff on the same basis and in competition with other international companies. They also conclude that co-operatives will have to continue to grow to remain competitive, and find ways of working with other non-co-operative companies. One possible way ahead for co-operatives is to join together and create knowledge groups to share research and development initiatives.

The fourth paper from the European conference examines discrimination against women in Spanish co-operatives. The authors, Professors, Chaves, Bonet, and Moreno point out that because of their identity - highlighted in the co-operative principles - and their socio-economic functions co-operatives should be a corrective factor in the field of labour inequalities. In this context, co-operative literature has identified important gender imbalances in co-operatives. Their paper analyses this by focusing on Spain and using empirical data. They conclude on the basis of their research that there are inequalities between men and women in Spanish co-operatives and worker-owned companies. Women are less represented than men. Occupational segregation was also detected. The authors observed attitudes and initiatives within the co-operatives

that show a high awareness of the problem of female labour inequality. The final paper in this issue is from the Asia Pacific region of the ICA. The author, Sudha K focuses on member services and member development. She believes that these areas of co-operative activity are often neglected as co-operative management seems preoccupied with commercial success and imitating their corporate rivals. The author believes that *member relationship management* offers a possible way of ensuring member service and orientation is embedded in the organisations management style. On the basis of surveys she has carried out in Indian co-operatives the author concludes that co-operatives need to develop their business,

not by only looking at the external market structure, but by starting from within and attending to their members' needs. In this context, member relationship management is an imperative.

Finally we would like to thank Iain Williamson, a long time co-operator for his assistance in helping to edit this edition of the Review.

We hope you find this issue of the ICA's Review of Co-operation informative and interesting.

**Akira Kurimoto**

*Chair, ICA Global Committee on Research*

**Garry Cronan**

*ICA Communications Manager*



# Financial Co-operatives in Argentina

by Ruth Muñoz and Griselda Verbeke\*

Trends in Argentina during recent decades have included banks cutting out the middleman (desintermediation) and financial crises in the economy. This process has led to a scarcity of financial services available to vast sectors of the population.

These tendencies first began at the end of the 1970s, in an economic climate that saw significant changes brought about by the introduction of liberal policies. The situation deteriorated from 1990 and led to a greater concentration of ownership. The result was growing competition, an influx of foreign banks and a dramatic reduction in the overall number of national financial bodies, both public and private – but particularly co-operatives.

This paper describes the evolution of



Argentine financial co-operatives under these conditions and the regulations applied to them during the period from 1976.

## Patterns of Regulation

In Argentina, the financial system contains three different types of co-operative: co-operative banks, credit unions and credit co-operatives. The differences between them can be found in the extent of their respective operations, defined by their specific operating methods.

- **Co-operative banks** are regarded as commercial banks and are therefore able to perform similar kinds of operations. They are regulated by the Law of Financial Organisations N° 21.526

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of 1977 and are supervised by the Supervisory Body of Financial and Banking Organisations – which is linked to the Central Bank of the Argentine Republic (BCRA). Furthermore, due to their particular type of business structure, they are subject to the Law of Co-operatives N° 20.337, whose application is controlled by the National Institute of Associativism and Social Economy (INAES).

- **Credit unions** are non-banking financial institutions regulated by the same legislation as co-operative banks. They operate with a smaller capital-base than the banks and have some limits on their operation<sup>1</sup>. A prohibition on offering current accounts is the most important of these limits.
- **Credit co-operatives** are not regarded specifically as financial organisations. Their particular activity is providing credit to their members<sup>2</sup>. They are regulated by the Law of Co-operatives.

The previously mentioned Law of Co-operatives, which establishes INAES as the supervision and control body, regulates all kinds of co-operatives and deals in particular with their financial activities. For the distribution of surplus, it has been established by statute<sup>3</sup> that this distribution can be made according to the capital contributed or according to the services used. With regard to the granting of loans to their members<sup>4</sup>, both credit co-operatives and other types of co-operatives (e.g. housing, consumer) also offering credit services must adjust their operations to the established norms. Co-operative banks and credit unions are excluded from this

restriction, as they are allowed to receive money from non-members under the legal regime that applies to financial organisations<sup>5</sup>.

## Historical Review

The first financial co-operatives in Argentina can be traced back to the beginning of the twentieth century. They were encouraged mainly by European immigrants who started them with the aim of helping to overcome a lack of financial resources for their activities. They operated in a simple way, granting loans for social help – savings bonds being the most popular instrument (Mizrahi; 1996).

The different patterns adopted are briefly described below (Plotinsky; 2002):

- Popular banks were the earliest financial bodies in the country to have co-operative characteristics. The Argentine Popular Bank, established in 1887, was the first. Until 1912, similar banking organisations were established and developed using the Italian model devised by Luigi Luzzati. Some of these became joint-stock companies, as the first Co-operative Law was not enacted until 1926<sup>6</sup>, and others changed their legal status following monetary and banking reform in 1935.
- Rural credit unions were promoted by the Argentine Social League after 1909, on social/Christian lines, adopting a similar model to those devised by Frederic Raiffeisen. Most of them disappeared with the economic crisis of 1930
- Regional thrift and credit co-opera-

tives began in 1941, encouraged by the national government, with the aim of providing credit to small farmers. Even though many of these bodies were created, they were never very significant.

- Finally, credit unions arose at the beginning of the last century, encouraged by immigrants from a wide geographic area who undertook varying economic activities. Credit unions became relevant because of their role of assisting small industries and local commerce. They grew steadily until 1940, working with their own capital and catering for the needs of craftsmen and traders in the cities as well as rural workers in the countryside.

A new era for financial co-operatives began in 1940. National policy encouraged the development of the internal market, which led to the growth and diversification of those sectors assisted by co-operative organisations. This brought about the need for a new financial instrument: bank current accounts payable on demand. These would allow speedier operations and more substantial development.

Following these changes, a new co-operative scenario developed during the 1950s. In this decade, two representative institutions were created: the Argentine Federation of Credit Co-operatives (FACC) in 1950, mainly to coordinate union representation and legal counseling, and the Co-operative Fund Mobilisation Institute (IMFC), established in 1958 by 58 co-operative bodies as a second tier for financial institutions, with the purpose of clearing, centralising information and assigning the remaining resources

among regional co-operatives.

The period from 1958 to 1966 was notable for the growth of financial co-operatives, which increasingly took on a banking profile. Many credit unions were founded, some of which started to develop current accounts and bank drafts as a way to draw against their balances.

As an indicator of trends, it should be noted that the number of credit unions rose from 197 in 1958 to 974 in 1965. These represented half the organisations in the Argentine financial system, with a 10% share of deposits. Measured by the extent of their deposits, they took third place after the Bank of the Argentine Nation and the Bank of the Province of Buenos Aires, surpassing by more than 80% the main private banks (Mizrahi, 1976).

The vast spread of bank drafts<sup>7</sup> was crucial, since they increasingly became the instrument that channelled the resources of small- and medium-size businesses towards accessible credit in this sector. This activity brought a reaction from the capitalist sector through press campaigns and attempts to restrict their operations, which emanated from the BCRA. It is relevant to note that one of the greatest negative impacts came from Resolution N° 286/66, which ruled that co-operative bank drafts or similar payment-on-demand documents were of a non-negotiable bill of exchange nature, which prohibited their endorsement. In addition, it proscribed the operation of any system of compensation by co-operative organisations. These measures hit co-operatives hard and they suffered a significant decline: in 1966

there were 974 credit unions and by 1971 only 450 remained. Their share of deposits fell from 10% to 2.5% (Mizrahi; 1976).

In December 1972, Law N° 20.041 authorised credit unions to work with current accounts and the circulation of bills of exchange. It also established that the Bank of the Argentine Nation would be in charge of the clearing house operations. This was the situation until 1973, when the clearing house function was recovered by the co-operative bodies. The credit unions thus started to extend the range of services to their members and began the registration of new organisations under the regime established by the new Law of Co-operatives N°. 20.337 of 1973.

### Evolution since 1976 through the Analysis of Data<sup>8</sup>

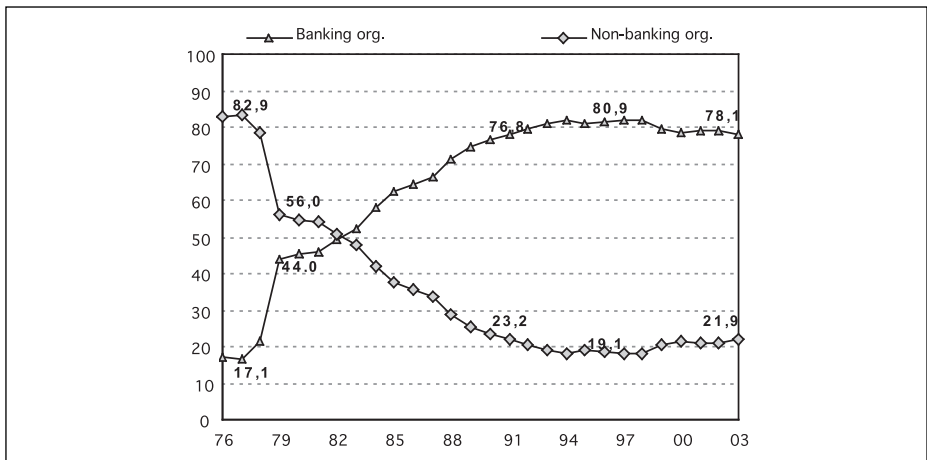
In 1976 the military regime pushed through financial reform with a legal

basis sanctioned by the Law of Financial Organisations N° 21.526 and the Law of Decentralisation of Deposits N°. 21.495. For the domestic financial system, this represented a significant change, since a new stage of development had begun. Some basic characteristics were then introduced that have remained; others have changed profoundly.

One of the most relevant characteristics was the strong flow of resources to organisations with banking status. In 1976 these held a market share of 17.1% among all financial organisations; by 2003 this figure had reached 78.1%.

Another basic feature of the changes was the increase of private bodies, in particular, and the strong presence of foreign banks. The new system was also notable for a sustained tendency towards concentration, both among the organisations themselves and territorially.

**Chart 1: Percentage of market share, measured by the number of organisations.**



Source: According to data from the BCRA.

**Table 1: Evolution of the number of financial bodies**

| YEAR | REGULATED BY INAES  | REGULATED BY SEFINC (BCRA) |       |             |                    |                          |
|------|---------------------|----------------------------|-------|-------------|--------------------|--------------------------|
|      | CREDIT CO-OPERATIVE | TOTAL                      | BANKS | NON-BANKING | CO-OPERATIVE BANKS | NON-BANKING CO-OPERATIVE |
| 1976 | 126                 | 692                        | 118   | 574         | 9                  | 424                      |
| 1977 | 131                 | 723                        | 119   | 604         | 9                  | 423                      |
| 1978 | 143                 | 721                        | 156   | 565         | 39                 | 375                      |
| 1979 | 158                 | 496                        | 218   | 278         | 85                 | 101                      |
| 1980 | 161                 | 469                        | 213   | 256         | 79                 | 88                       |
| 1981 | 161                 | 449                        | 205   | 244         | 76                 | 88                       |
| 1982 | 162                 | 413                        | 203   | 210         | 75                 | 72                       |
| 1983 | 163                 | 402                        | 209   | 193         | 75                 | 69                       |
| 1984 | 166                 | 360                        | 209   | 151         | 72                 | 50                       |
| 1985 | 168                 | 315                        | 197   | 118         | 63                 | 33                       |
| 1986 | 169                 | 296                        | 190   | 106         | 57                 | 30                       |
| 1987 | 172                 | 267                        | 177   | 90          | 53                 | 25                       |
| 1988 | 176                 | 244                        | 174   | 70          | 50                 | 23                       |
| 1989 | 177                 | 236                        | 176   | 60          | 49                 | 20                       |
| 1990 | 178                 | 220                        | 169   | 51          | 45                 | 18                       |
| 1991 | 182                 | 214                        | 167   | 47          | 44                 | 18                       |
| 1992 | 186                 | 210                        | 167   | 43          | 41                 | 18                       |
| 1993 | 188                 | 206                        | 167   | 39          | 39                 | 17                       |
| 1994 | 193                 | 205                        | 168   | 37          | 38                 | 15                       |
| 1995 | 200                 | 157                        | 127   | 30          | 9                  | 12                       |
| 1996 | 209                 | 147                        | 120   | 27          | 8                  | 7                        |
| 1997 | 214                 | 138                        | 113   | 25          | 6                  | 7                        |
| 1998 | 237                 | 126                        | 103   | 23          | 4                  | 6                        |
| 1999 | 265                 | 117                        | 93    | 24          | 2                  | 5                        |
| 2000 | 272                 | 113                        | 89    | 24          | 2                  | 4                        |
| 2001 | 291                 | 106                        | 84    | 22          | 2                  | 3                        |
| 2002 | 296                 | 99                         | 78    | 21          | 2                  | 2                        |
| 2003 | 316                 | 96                         | 75    | 21          | 2                  | 2                        |

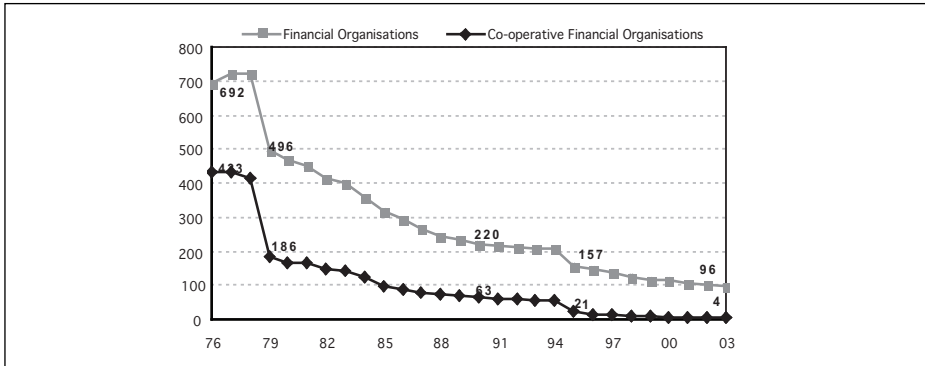
Source: Based on data from the INAES and the BCRA.

According to the data in Table 1, a growth in the number of registered co-operative credit unions is seen between 1976 and 2003. This increase accelerated during the last six years, with an annual average of 17 organisations formed. On the other hand, within the overall financial system, the number of co-operative

banks and credit unions decreased to only four in 2003, one of which is currently in the process of changing its legal status.

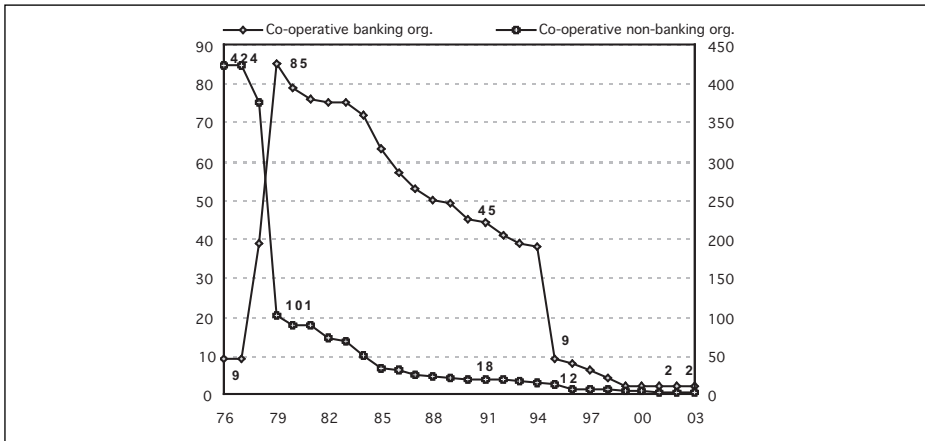
Overall, the removal of about 600 organisations from the system in less than 30 years highlights the tendency towards concentration mentioned earlier.

**Chart 2: Number of co-operative bodies in relation to the whole financial system**



Source: Based on data from the BCRA.

**Chart 3: Number of co-operative banking and non-banking organisations**

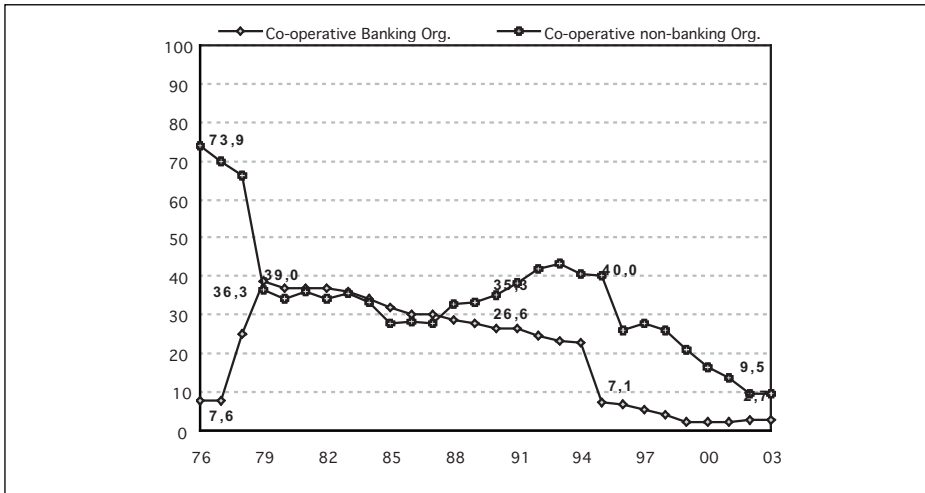


Source: Based on data from the BCRA.

The regulation in force from 1977 allows only commercial banks to exercise financial intermediation, since they are the only ones authorised to receive on-demand deposits. That regulation also establishes minimum capital requirements. Thus, if the co-operative organisations wished to maintain the option of attracting deposits, they were forced to transform into banks.

Due to the high minimum corporate capital levels required, this legislation resulted in the merging of credit unions. Those that did not merge were greatly limited on their operations. Accordingly, about 300 of the 424 existing credit unions in 1976 chose to become banks and 76 new co-operative banks were created within two years. Together with the nine co-oper-

**Chart 4: % of market share of co-operative organisations, by category**



Source: Based on data from the BCRA.

ative banks already operating, this made a total of 85, located mainly in the Pampa region. In some regional economies, these constituted the only national private banking organisation for a long time.

The number of co-operative banks and credit unions has decreased steadily since 1980. This tendency was accelerated by the different external problems affecting these organisations after the Tequila Crisis, which led to an increase in prudential regulation. This had an effect on the whole financial system, though with an unequal distribution: whereas all the organisations were reduced by 45% between 1994 and 2000, the co-operative banks and credit unions experienced reductions of 95% and 73% respectively.

As for the co-operative banks, by 2003 89 out of the 91 existing in 1976 had disappeared. Table 2 indicates the life expectancy during this period, and

even though two or three modal values can be found, a wide distribution within a range from zero to 70 years of life expectancy stands out.

Moreover, it is interesting to note that while a number of co-operative banks disappeared (Chart 3), others went through processes of take-over and merger with other co-operative organi-

**Table 2: Range in the lifespan of co-operative banks**

| YEARS OF LIFE | CASES |
|---------------|-------|
| [0 , 5]       | 15    |
| [5 , 10]      | 26    |
| [10 , 15]     | 9     |
| [15 , 20]     | 29    |
| [20 , 25]     | 3     |
| [25 , 30]     | 2     |
| [30 , 70]     | 3     |

Source: Based on data from the BCRA about 87 of the 89 cases.

**Table 3: Co-operative banks ceasing activity**

| Type  | 1976-1989 |              | 1990-2003 |              | 1976-2003 |              |
|---|-----------|--------------|-----------|--------------|-----------|--------------|
|   | Cases     | %            | Cases     | %            | Cases     | %            |
| <i>Processes of liquidation</i>                                 | 29        | 69,0         | 7         | 14,9         | 36        | 40,4         |
| <i>Maintenance of Co-operative nature</i>                       | 10        | 23,8         | 19        | 40,4         | 29        | 32,6         |
| Take-over by Co-operative Bank                                  | 10        | 23,8         | 13        | 27,7         | 23        | 25,8         |
| Merging Co-operative Banks –<br>Creation of Co-operative Bank   | -         | 0,0          | 6         | 12,8         | 6         | 6,7          |
| <i>Transformation into Limited Company</i>                      | 0         | 0,0          | 19        | 40,4         | 19        | 21,3         |
| Merging Co-operative Banks –<br>Creation of joint stock Bank    | -         | -            | 9         | 19,1         | 9         | 10,1         |
| Transformation into joint stock Bank                            | -         | -            | 7         | 14,9         | 7         | 7,9          |
| Part of Partnership consortium Provincial<br>Bank Privatisation | -         | -            | 2         | 4,3          | 2         | 2,2          |
| Transference of assets and liabilities to<br>joint stock Bank   | -         | -            | 1         | 2,1          | 1         | 1,1          |
| Other (n/a)   | 3         | 7,1          | 2         | 4,3          | 5         | 5,6          |
| <b>TOTAL</b>  | <b>42</b> | <b>100,0</b> | <b>47</b> | <b>100,0</b> | <b>89</b> | <b>100,0</b> |

Source: Based on data from the BCRA about all 96 organisations.

**Table 4: Indicators of the scale of remaining co-operative financial organisations at December 2003**

| ORGANISATION                 | ASSETS |      | LOANS |      | DEPOSITS |      | NET WORTH |      |
|------------------------------|--------|------|-------|------|----------|------|-----------|------|
|                              | RANK   | %    | RANK  | %    | RANK     | %    | RANK      | %    |
| COOPERATIVE SYSTEM           |        | 1,99 |       | 2,25 |          | 2,66 |           | 2,62 |
| Banco Credicoop              | 12     | 1,82 | 12    | 2,02 | 11       | 2,47 | 13        | 2,38 |
| Banco Empresario del Tucumán | 47     | 0,14 | 36    | 0,18 | 39       | 0,18 | 58        | 0,18 |
| Caja La Capital del Plata    | 87     | 0,02 | 78    | 0,02 | 70       | 0,01 | 88        | 0,05 |
| Caja Cuenca                  | 93     | 0,01 | 83    | 0,02 | 73       | 0,01 | 93        | 0,02 |

Source: Based on data from the BCRA about all 96 organisations.

sations, and some of them became traditional banks.

Between 1976 and 1989, a number of changes are seen as a result of new regulations: 39 out of the 42 banks that disappeared had started their activities between 1978 and 1979. On the other hand, during the second period from

1990 to 2003, the demutualisation process was significant for the banks. It reached the same dimension that it had for co-operatives. It is important to highlight that 15 of the 19 examples that changed their legal status did so in 1995.

Finally, the trend towards the disap-



pearance of co-operative organisations can also be seen through the scale of their assets, loans, deposits and net worth – indicators that highlight the reduced level of activity of the four remaining co-operative bodies in 2003. Of these, the Credicoop Bank is the only significant organisation still in existence. In the near future, it will become the only co-operative bank in the country – since the Banco Empresario del Tucumán is converting into a traditional bank.

### **Future Perspectives**

A favourable scenario for the development of a variety of financial operations has been emerging since the end of the 1990s. These include non-profit micro-credit associations that finance housing, and state agents that develop different programmes through the “Banca Social”. These programmes are focussed on socio-economic activities to benefit the most needy in society.

This could present an opportunity for alternative financing projects and encourage more solidarity and economic democracy. It could also provide a way to bring domestic savings to those socio-economic groups who lack funds and/or access to credit.

The co-operative movement has carried out several projects in performing its historical function of providing financial services in the countryside. Moreover, it has made attempts to renew and reposition its current low level of activity.

Towards the end of 2003, the reform of the Law of Financial Organisations was sanctioned, through Law N° 25.782,

which has restored the ability of credit unions to provide current accounts. The changes stipulate that these organisations must function without branches and only with members who live in the immediate area. The reform also prohibits the transfer of co-operative organisations’ goodwill to any other body and prevents them from becoming commercial bodies. The BCRA controls the application of the law. It will establish the regulations and requirements that constitute the legal nature, size, economic and social characteristics of those organisations involved.

Moreover, the first steps are being taken to encourage the approval of a unified law of co-operatives and mutual savings and loans banks, for those organisations not controlled by the BCRA. The first draft proposes that these can receive deposits, with the INAES as the regulating body, and suggests the creation of a Supervisory Authority (*Superintendencia de Entidades Solidarias de Ahorro y Crédito*) that would report to the Ministry of Economy and Production. Finally, the Secretary of Economic Policy of this Ministry is working on a project to create a parallel line of credit to enable the financing of small- and medium-size enterprises. This system would be non-banking and it would be maintained by the mutuals, credit unions and co-operatives and not under the regulation of the BCRA.

The feasibility of these projects is thought to depend essentially on the implementation of suitable macro-economic policies and on the ability of the co-operative movement and co-operative financial organisations to achieve real vertical and horizontal integration.

This factor will be crucial, since, among other things, improved channels of distribution of resources and technology will help the organisations to survive in an increasingly competitive financial market and to fulfill their economic and social mission.

## Conclusions

The evolution of the organisations studied here between 1976 and 2003 shows the decline of financial co-operatives. The economic and political context and the adverse regulatory regime proved to be strong factors limiting their development. Other factors should also be considered, although they go beyond the scope of this paper. One possible explanation could be found in their problems of governance, both in the context of the relationships between the organisations in their sector and also within each individual body.

More recently, due mainly to historical factors that contributed to the development of the co-operative financial system, there have been the predominant problems of competition and fragmentation which, in the absence of

strong foundations, have tended to undermine the co-operative sector.

It is also generally agreed that the process of demutualisation might be a result, among other causes, of the fact that many of the organisations were not genuinely co-operative and operated non-transparent practices. On the other hand, capital-raising problems may have also intensified by adopting the same strategies as the traditional banks. It turns out essentially, however, that there were problems of co-operative governance.

In view of the above, it is important to take the historical dimension into account and to recall the performance of co-operative credit unions in the countryside, where they became a significant factor in the regeneration of many regions. We should learn from the success of these as well as learning from their failures. It is also important to stress, for those co-operative organisations remaining, the need to strengthen their institutional links and to develop robust and structured relationships with other social movements in the areas in which they operate. □

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## Notes

<sup>1</sup> Law of Financial Organisations No. 21.526 – Art. 26.

<sup>2</sup> In 1996, resolution No. 1477/96 from the National Institute of Co-operative and Mutual Action (now INAES) established that credit unions could accept operations with non-members.

<sup>3</sup> Law of Co-operatives No. 20.337 – Art. 42., Int. 5.

<sup>4</sup> *Ib.* – Art. 115

<sup>5</sup> *ib.* – Art. 116

<sup>6</sup> Law of Co-operatives No. 11.388

<sup>7</sup> These bank drafts, although not corresponding to a legal regulation, became

endorsable and began to be paid in a similar way to those of the banks. At the same time, current accounts appeared and the previously mentioned bank drafts were drawn upon them.

<sup>8</sup> The evolution of co-operative finances during the period 1976-2003 takes account of that group of organisations for which information is provided centrally by the BCRA – co-operative banks and credit unions – and the official register published by the INAES for credit co-operatives.

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# Building New Resources: Co-operative, Networks and Blueberry Production in an Area of Argentina

by Clara Craviotti\*

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Over the past decade, the social fabric of the agrarian sector has undergone profound changes. According to the 2002 Agricultural Census, there has been an increase in production of different lines of business together with a significant decrease in the number of productive units. While some producers have left the land, others have adopted more defensive strategies, such as retreating to self-sufficiency, searching for supplementary income by way of diversification, and an enlargement of scale through associative strategies. The foregoing situation accounts for an increasing diversity among producers, due to the quantity and quality of resources available to them – whether these are economic, cultural, social or related to their access to information – and the type of strategies they implement.

An additional reason for the diversity

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of the agrarian sector has been the arrival of new entrants into the production process, a phenomenon which is smaller in scale than the retreat from the land previously mentioned and differs in quality from existing agriculture, given that the newcomers include not only investors seeking to diversify their investment portfolio but also people who have lost their jobs in the labour market and have decided to engage in agrarian micro-business activities as a means of supporting their families in an economic climate of persistent unemployment.

The purpose of this article is to examine the character of these new producers and to reflect on how their arrival has coincided with the formation of an association. It is particularly interesting to analyse the relationships that have developed.

This leads us to combine an analysis of the structural characteristics of the growers with an analysis of their interactions. The theoretical approach to what is known as “innovative milieu”, highlighting the role of local institutions and networks as mechanisms that help to disseminate information and knowledge, is particularly relevant to the situation being considered. This is because the newcomers have embarked on what has recently become a new and very dynamic activity in this country – the production of blueberries, a process where the alliances that enable it to flourish are becoming stronger.<sup>1</sup> We will be able to see how the threads that form the network of relationships between the producers and the different sectors of their community are woven and also how such networks are currently being redefined because of the tensions within their co-operative.

This report is based on an earlier study of growers in a district located to the west of the province of Buenos Aires (Craviotti, 2003). This district is characterised by its agrarian production, even though this activity is not overall as important to the local economy or to employment as the service industry.

Identifying the distinctive features of the growers who are concentrating their production on blueberries allowed us to focus on a second stage of the investigation. To do this, we included

new case studies of producers by using a questionnaire that considered their structural characteristics, the amount of their farm and off-farm work and issues concerning association activities. To focus on the associative matters, this second stage also included further interviews with producers who had already been surveyed at the first stage.

## **How the Growers Started a New Activity**

Blueberry production is quite new in Argentina. It began in 1993 with an initiative in the private business sector, which imported seedlings from the United States, the main producer and consumer of blueberries worldwide. The production and export of blueberries has grown substantially in recent years, a phenomenon driven by the devaluation of the Argentine peso. In 1995, export figures stood at 3 tons and, after a dramatic rise, they reached a peak of 548 tons in 2002, generating an FOB value of US \$6,192,400 in the same year. (Our own estimate is based on data provided by SAGPyA, the State Secretariat for Agriculture, Livestock, Fishing and Food).

The blueberry market is relatively small and prices fluctuate wildly, reaching unusually high levels at certain periods. There are two main peaks: November/December and March/April. In 2002, Argentine blueberry production was sold at an average FOB price of US \$11.3 a kilo. Although there are no official records of blueberry production on a worldwide basis – due to the fact that most of it grows wild – and in spite of the fact that it is sold on consignment –

i.e. at the price obtained at the moment of the sale – the current market conditions are favourable for producers because of the gap between supply and demand during the low season. However, producers and key analysts consider that this situation will change as more new growers enter the market, an event that may lead to market classification into different varieties. Also, it is likely that having the quality and origin of the product certified by traceability systems will soon be necessary.

From the producer's viewpoint, the blueberry is a demanding crop because of the particular soil conditions where it must be grown and the fact that it requires drip irrigation, a number of supplies – most needing to be imported or paid for in US dollars, such as the seedlings – and the special care and attention that must be given throughout the growing cycle.<sup>2</sup> The first “commercial” harvest occurs in the third year but production does not peak until the sixth or seventh year. The blueberry harvest is also highly demanding in labour and skill requirements, since the fruit has to be carefully picked and handled during the harvest and should not lose its waxy coating. These factors help to explain why women are preferred to men for harvesting activities, market preparation and packaging, as is the case with other fruit production in Argentina. The fruit's waxy coating gives blueberries a clear advantage over other berries: they last comparatively longer – an estimated 15 days after they have been harvested – as long as they are kept refrigerated. Generally, blueberries are transported by air to take advantage of the better prices

obtained and because methyl bromide fumigation shortens the useful life of this fruit, a fact that adds a significant cost to its commercialisation.

In Argentina, there are only a few growers involved in blueberry production. The scant local experience of growing this crop has led to the abandonment of plantations by some producers. According to estimates, at present there are about 450 ha. distributed among 300 productive units<sup>3</sup> and five marketing companies. However, both the number and size of productive units should increase in the near future, as changes in the Argentine exchange rate have strongly encouraged exports. If such an increase takes place, the rules of the game suggest there will be profound changes at the commercial stage, affecting producers as a whole and making strategies to enlarge the scale of production even more necessary.

Another factor influencing conditions in the blueberry market in the medium term is the level of vertical integration among the growers. In the same way that some producers create associations or partnerships to market their products and, eventually, export it directly, some marketing agents are integrating downstream through the purchase of productive units and, more recently, by entering into sales contracts with producers to ensure a minimum volume of fruit. Some of these marketing agents also sell seedlings and offer technical advice. Some have started to “tie together” the sale of significant volumes in commercial contract lasting for several years. In this way, they have an impact in shaping several markets: the markets of inputs and supplies as well

as the sale of the fruit. This has implications, as we shall explain later, for the association project of our case study, insomuch as the latter cannot be defined without bearing in mind the asymmetry – both present and future – between these factors.

One relevant issue, as yet unresolved, is the foreign market. In this market there are certain “conventions” connected to safety. The US demands bromide fumigation of blueberries against the fruit fly while other countries have conventions related to good practice and environmentally friendly policies – for example, some important European supermarkets demand a certification of compliance with the EurepGap standard.

Even though the minimum economic unit for growing blueberries has been calculated at 5 worked hectares, the necessary level of investment to make such plots of land productive is, in reality, a barrier to entering production. At the start, the prospective growers entering the blueberry business did not belong to the agrarian sector; on the contrary, most of them were engaged in other activities, generally of a professional nature, for their main source of income, a fact that has been widely reported in the media. The policies of some companies, which aimed at luring investors by presenting highly attractive figures for the return on their capital and offering advice throughout the productive cycle, have probably contributed to this trend.

The producers in our case study are located in a geographical area that has one major advantage: its proximity to

Buenos Aires International Airport, a fact that makes the export of their produce much easier. Many of these producers are quite close to one another and most have purchased their blueberry plantations rather than inheriting them. In general they started by growing blueberries, although some had produced other crops before. If we take into account the size of their plantations, we can say they are small producers; they own less than 15 worked hectares and the majority own about five. However, they do not correspond with the usual definition of a small producer, since they do not perform physical tasks on their plots of land; all of them hire a foreman and personnel to get the harvest in. Nevertheless, they go to their farms every week – twice a week in the peak season – and are deeply involved in managing them.

In general, the producers are independent professionals who are self-employed or are employees with middle or senior positions that allow them to arrange their schedules with greater flexibility. They try to fit those activities they do perform into their work schedules. The non-growing activities constitute the main source of income for the producers who have recently started blueberry production, while they constitute half the income for those producers who have been in this business for a longer period.

Within this group there are “core founders” who started working their plot of land in the year 1997 and have already marketed its production for two or three seasons, as well as a more recent core of producers with little or no

production so far. In all, there are 19 producers who own about 100 planted hectares. In 2002 they exported 27 tons of blueberries and this figure was expected to increase to 60 tons in the 2003/04 season. This figure represents about 10% of overall national blueberry production. (Interview with producer, Case No. 2, 2003).

Even though the producers in our case study experienced no restrictions at the time of making their necessary investment to grow blueberries – yet another feature that differentiates them from other small producers – not all the members of the group share the same financial position, a fact highlighted by their need to set up associations with relatives or acquaintances or resort to borrowing money in order to obtain the necessary finance. Such finance has come from seedling suppliers or banking institutions and, to a lesser extent, family members. The producers in our case study show high aptitudes for business matters and are willing to take risks – their preference for early varieties yielding higher prices but also more prone to frost gives a good indication of this – but many of them also had other motives when they entered the agrarian sector, such as enjoying agrarian activities or rural life.

The group's distinctive features – an off-farm origin, professional qualifications and a disposition to invest – contribute to its strong presence in the local community. Also, this group stands out for having aimed at forming associations and establishing networks from the very start.

## **The Co-operative and Other Networks**

In our study, the first people interested in starting blueberry production realised from the very beginning how necessary it was to form an association and set a schedule of periodic meetings for the exchange of information. Nevertheless, almost four years went by between the first meetings – held in 1997 – and the formation of the co-operative. During that time, the growers devoted themselves to gathering the necessary information and preparing their plots ready for planting. Considering them as a group rather than individually, during the same period the members held discussions about the most appropriate type of business association to further their interests and the “limits” and needs of the association project were thus established. The fact that their plantations had reached a certain degree of maturity and many of them were about to reap their first harvest undoubtedly contributed to paving the way for the formation of the co-operative, an event that would enable them to market their product jointly.

As well as setting up the co-operative they built links with several organisations and individuals, and in this way a network of relationships was formed in their own vicinity and farther afield. Examples of external links are the relationship with the National Chamber for the Production of Blueberries and Other Berries – the group contributed to its creation and some of its members take part in it – as well as relationships with co-operatives from other



provinces. In addition, there is the relationship with the marketing company, one that can be described as uncertain if we take into account the fact that the group sold its production consecutively through two different marketing companies. This relationship still needs to be redefined on the basis of a cost-benefit evaluation and the future prospects perceived by the producers.

However, the links formed within the immediate vicinity, or “local nodes”, are particularly significant in this case study. These are the starting point for discussions about future growth prospects in the area. The most relevant relationships are those established with the local economic chamber and the

agrarian school and these links can be described as quite stable.

One of the first relationships the group established was with the local chamber, a link that provided the group with a place for meetings and help in the association process. Through the local chamber, the group was able to contact both the local and provincial government – and they managed to have their activities declared “of municipal interest” by the local legislature.

The chamber also helped to establish contact with the agrarian school through one of its technicians, who was also a member of the school’s administration board. In turn, the relationship with the school allowed the group to

**TABLE: Elements of the network around blueberry production**

| Type of relationship | Within the vicinity or local   | Outside the vicinity  |
|----------------------|--|---|
| Stable               | <ul style="list-style-type: none"> <li>- Seedling supplier (currently a member of the group)</li> <li>- Agrarian school (estate loaned in commodatum)</li> <li>- Economic Chamber (technical assistance, room for meetings)</li> <li>- Experimental technical station, Rural Association (taking part in conferences or other events)</li> <li>- University (hiring of a trainee)</li> </ul> | <ul style="list-style-type: none"> <li>- Provincial Institute for Co-operative Action (Instituto Provincial de Acción Cooperativa) (IPAC)]</li> </ul>   |
| Contingent           | <ul style="list-style-type: none"> <li>- Electrical Power co-operative (room for meetings)</li> <li>- Municipal government (loan of machinery to till the soil)</li> </ul>   | <ul style="list-style-type: none"> <li>- Marketing company (sale of blueberry production)</li> <li>- Provincial government (loan for equipment)</li> <li>- National Chamber for the Production of Blueberries (conferences for exchange of information, lobby)</li> <li>- Other groups of producers (exchange of information, agree on strategies from time to time)</li> </ul> |

gain access to a plot of land, leased to them for a fixed period of 25 years, where they could build a storehouse for packing their production. This allowed them to manage other stages of the process other than production, as well giving them a larger proportion of the profits. In exchange for the assignment of this land, the group promised to donate to the school enough plants for an experimental blueberry orchard and to contribute 5% of the surplus earned by their commercial activities<sup>4</sup> to help train students in blueberry growing skills and to hire trainees to work in the plantations of the group members.

In addition to being a way of accessing resources, this agreement helps some of the local population to become involved in the production of blueberries and assists the dissemination of techniques surrounding the different stages of the growing process and of the group's activities, something that contributes to its standing in the community. If we bear in mind the fact that most of the growers are not themselves local and live outside the district, this dissemination of the group's activities becomes particularly relevant.

Setting up a co-operative has turned out to be an excellent way for the group to share their experience and knowledge as well as helping to develop the links arising from their off-farm activities – increasing their social capital, according to Bourdieu – which helps to explain the good reputation the group has won both in the immediate district and beyond. The fact that they were all part of a group contributed, especially in the early days, to the exchange of experiences and mutual help which

they needed when they came up against the inevitable difficulties of starting a new business. Other information available at the time was only in the hands of private and specific sources, such as seedling suppliers or marketing companies.

It is worth noting that since its formation, the group has continued to hold regular meetings, promoted by the Co-operative Administration Board, which attract a high attendance. At these meetings, matters concerning the operation of the co-operative and its very existence are considered, since “the existence of a relationship network is not a natural gift nor a social one, but the fruits of working hard to produce and reproduce these durable and useful relationships” (Bourdieu, 1980). In this regard, regular attendance at meetings and the level of participation in them are crucial to the group and greatly assist when taking decisions.

## **Growth or Limitation: The Issue of Inclusion**

From the associative standpoint, the growers in this study have passed through different stages: the first was the formation of an association and the adoption of the co-operative model; the second was building the packing plant for their production. Now the group is moving into a new stage which has yet to be defined, with internal debates surrounding a possible redefinition of the association project. This new definition revolves on two axes:

a) how to relate the co-operative to other agents in the chain, and

b) how to relate the co-operative to the local community.

The issues arising from the redefinition of the association project are focused on the level of integration with the marketing company and the inclusion of new members. Current members refer to the latter issue as “the discussion in relation to growth”.

We will now analyse the implications of each of these issues:

*The level of integration with the marketing company:* the level of freedom with the marketing company depends on the contract, which obliges the producers to sell the whole or part of the harvest obtained and states the time limit of such an undertaking. A situation with a low level of freedom is one where the marketing company provides advice and has a tight control over the crop, preventing the producers from benefiting from alternative commercial proposals. On the other hand, this means that producers do not have to “worry” about marketing their product and it increases their strength at a time when new growers are entering the market.

The company through which the co-operative exported its last two harvests has offered the co-operative a stake in the business through buying a share, a proposal that corresponds with strategies adopted by other marketing agents wishing to guarantee a certain volume of fruit for export. Holding a share in the company would enable the co-operative to obtain a higher proportion of the profits and to influence the commercial strategy of a business that has a strong position in the production chain, with established channels and a branch in Chile. As one of the co-operative

members’ aims was, and still is, to export on their own behalf, some of them are inclined to accept this offer and, in so doing, gain wider experience in commercial matters. This would keep open the option of selling part of their production in their own name or through another agent, with a view to gaining greater independence in the medium-term.

*The inclusion of new members:* this is a key issue since it would bring in extra capital for new investments and increase the economic value of the co-operative. However, a rise in the number of members and the volume of fruit processed will involve providing adequate packing services for the new members and possible changes in management to help it to cope with more complex business situations. In the words of one of the members, this is a “knot” that will be difficult to untie since it is related to different visions of the co-operative’s future:

*“There are co-operatives that are actual corporations. There are co-operatives that support the idea that producers contribute to mutual help in order to maintain quality standards in the business, help one another in the event of natural disasters and form a group, one which you would like to take part in, to have an influence on the community... The situation is as follows: those who are very much interested in the economic factor are not interested in taking part in collective activities or growing as a group. I propose that instead of designating managers for every department that may be created, we manage those departments ourselves.” (Interview with producer, 2003, Case No. 5).*

Fear of losing participation in the co-

operative, which is predicted by those wishing to restrict the inclusion of new members, is regarded by those on the opposing side as fear of losing control and failure to recognise the threats of a business climate where the inclusion of new growers, with greater economic power and increased low-season production, would impair their negotiating capacity with marketing companies and other agents.

The way in which this “knot” is untied will have implications on how the co-operative is regarded by the community where it operates. At present, to join the co-operative a member must make a capital contribution, a fact that already creates a barrier. But to explicitly restrict access to the co-operative may turn out to be contradictory from the standpoint of the same “value” which is being defended: participation. It is odd to support participation, but only for those who are already taking part, and not for those wishing to join. Those who favour restricting access are proposing as an alternative the creation of other co-operative groups in the area, thus forging new alliances.

*“What I proposed is to encourage other people involved in blueberry production to form new groups close to ours, so that in future we can associate at the time of exporting our production”. (Interview with producer, 2003, Case No. 5).*

This is not a view shared by everyone in the group.

*“It is a question of strategy. People should come to us or we can even reach out to them... I propose that we have a strong co-operative with a large number of producers and a very high volume of production. It is very important to consider critical mass,*

*especially in this area because there are more people who are planting. I think we should do something about these people rather than let another group take them in or allow them to form another economic unit. I consider it of the utmost importance that they join one unique project; there is no room for ‘divide and rule’. Besides, it’s a waste of resources. People will have to invest in things we have already invested in, to walk along a path we have already taken. I think it’s best to offer them the service.” (Interview with producer, 2003, Case No. 5).*

*“The commercial world is very tough. Today we get invited everywhere because we have some fruit; but when producers in Entre Ríos, owning about 100 hectares, have fruit of their own, we will be seen as very small producers. And we have to be careful because in other parts of the world, supply and demand will vary and we should be ready when that happens. We should adopt a forward-looking approach. The people holding the extreme view are suggesting one positive thing: the formation of other co-operative groups to work together. The question is, ‘will they form?’ I believe we have to investigate, not just keep idealistic positions.” (Interview with producer, Case No. 3, 2003).*

The current absence of professionals for key tasks in the co-operative, jobs which instead are performed by committees made up of members, is a common feature of small producers’ organisations and is something that the members of the co-operative studied here have in common with many similar organisations. As a recent study points out (CEPA, 2004), the absence of hired staff to perform specific tasks constitutes a barrier for commercial development, because organisations depend

on the time volunteers have available to undertake such work.

Organisations that are engaged in varied activities have a more complex organisational structure. These activities may include classifying and preparing products for market, controlling the quality of the products marketed and planning the agrarian production. This entails a more structured relationship between the co-operative and its members and the establishment of clear rules on which they must agree – according to North, a higher “institutionalisation”. In our case study, the internal rules are still considered a draft and they are not used to settle disputes within the co-operative.

The type of service offered to members is yet another issue lacking definition. There are members who believe the co-operative should engage exclusively in commercial matters, while others consider it should offer a wide range of services, such as technical advice or the dissemination of reliable technical information. These issues are crucial and must be addressed soon because of the importance of good practice with a crop that is completely export-oriented. A further issue within the group that needs addressing relates to achieving greater impact locally by launching initiatives not exclusively connected to the needs of the co-operative and its associates, but aimed at wider spheres of influence such as local employment or social welfare:

- *Do you have relations with other producers in the area?*

*“No, we don’t. Personally, I’m critical of this situation. I believe we should work more with the local community. In their*

*eyes we are ... outsiders. It’s like throwing a big party in somebody else’s house; you’re having fun but the other members of the community are not taking part.”*

- *How should this relationship be?*

*“We should open out to the community ... We should ask ourselves how we are relating to the other productive sectors and in what manner we demand services from the community ...” (Interview with producer, Case No. 2, 2003).*

*“Our idea is to see the co-operative encourage the production of blueberries by small producers, not because we want them to become members – the producer who only owns a quarter of a hectare cannot afford the joining fee – but because we feel it is a way of helping the community ... We have discussed this idea and come to the conclusion that the municipality can promote the production of this fruit and we can give talks and offer help with the sale. These producers don’t need to buy the plants; they can grow blueberries from grafts.” (Interview with producer, Case No. 7, 2003).*

*“I believe we can be much more effective if we position our co-operative differently. We could give away fruit or have a stronger presence in social welfare dining rooms. We could play a more active role ... I get the impression that we should encourage trainees... I don’t know whether we make a real contribution to the community or not.” (Interview with producer, Case No. 9, 2003).*

If the co-operative launched initiatives that favored the community, it could become a true agent for local development and a channel for new growth in the area. Initiatives such as those already mentioned would also help to legitimate the co-operative, even though they could also create certain

“tensions” relating to the generation of profits involved in any enterprise of this kind. Both with this issue and the problem concerning the admission of new members, the level of social acceptability of the co-operative is at stake.

## Conclusions

Our case study proves that the growers have been helped by the formation of a collective group – the co-operative – and by the establishment of links with intermediate bodies – the school, the economic chamber, and the local and provincial governments. A network of strong local elements has been created; one that could serve as a basis for starting other activities inherent in the production of blueberries or supplementary activities that would allow more people to become involved and lay the foundations for local development.

The case study also shows that both the co-operative and the networks with which it is involved are issues of constant change and redefinition. Not all points of view coincide and not all the members in any organisation such as this share the same interests or are aware of all the implications of the type of group they have established. As one of them points out, *“We believe we get together in order to sell our produce at the best possible price but then other important aspects arise.”* (Interview with producer, Case No. 3, 2003).

The redefinition process must take place because, as new members are added, different points of view will arise that did not exist before. Even more decisive is the fact that the co-operative is a hybrid type of business: it

is based on the principles that all its members stand on an equal footing and enjoy the same right to participate in its affairs but, on the other hand, it has to make profits. It belongs to the “social economy”<sup>5</sup> and yet it operates in an environment strongly biased towards growth and the achievement of greater efficiency and levels of technology. This may lead to two different types of association strategies (Renold and Lattuada, 1999):

- a) The “mutuality type”, which promotes a more enthusiastic attachment to co-operative principles and institutional practices, putting greater emphasis on solidarity, mutual help and democratic participation; developing strategies that embrace the interests of all the members; limited to a specific geographic area so as to enable the democratic participation of all members; with reduced institutional complexity reflected in a small number of workers having little hierarchical differentiation, and an income which does not imply a break with the social and economic characteristics of its members.
- b) The “business type”, that seeks to reduce the differences between co-operatives and corporations in order to overcome any limitations that might hinder them from efficiently meeting challenges. This requires the adoption of a bigger economic structure with greater institutional complexity, as well as the expansion of operations into areas that have not been envisaged by the members. It also implies operating with third parties, creating private companies

such as corporations to engage in specific businesses or forming strategic alliances with private enterprises. These activities require the delegation of the main administrative and supervising activities to a professional staff of non-members. A greater level of commitment from members will be achieved through explicit and contractual agreements, different levels of reward according to the capital contributed, and the rights to make decisions weighted on the basis of the type of decision to be taken and to the amount contributed or the use made of the co-operative by the members, rather than through the reinforcement of ideological principles.

In our case study, co-operative members are aware that changes must occur in their organisation, though the out-

come is open-ended: it is possible the co-operative might keep its legal structure and change its management; or it might transform into a commercial company, etc. The paradox is that neither the absolute “mutuality” nor the “business” vision is shared by all the members of the group, since they agree on aspects of both. However, the resolution of the existing tensions will have an impact that goes beyond the co-operative itself, as the local community has identified it as a possible agent for change.

In this sense, the links established at the local level with other productive groups – whether they are engaged in the production of blueberries or not – and intermediary bodies should be examined carefully during this process of change, since there is the potential here to create a truly innovative body. □

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## Notes

<sup>1</sup> This approach, concerned with the conditions that enable competition in a global economy, considers that competitiveness is based not so much on the factors of production but on the existence of an environment encouraging innovation. The main characteristics of this type of environment are a large number of associations and the existence of both formal and informal interchange mechanisms, which make possible the sharing of knowledge between producers. (For a summary of the various lines of thought within this approach read the paper by Schejtman and Berdegué, 2003).

<sup>2</sup> Investment per hectare is about US \$10,000 (Interview with key Informant No.2, 2002), though other sources estimate higher amounts.

<sup>3</sup> The data regarding productive units correspond to late 2001 and were provided by the Argentine Chamber for the Production of Blueberries and Other Berries (Cámara Argentina de Productores de Arándanos y otros Berries). It should be noted that it is very difficult to assess the actual number of producers, due to the formation of associations and partnerships and to the membership of some growers in more than one of these groups.

<sup>4</sup> The Co-operative Companies Act No. 20337 provides that 5% of the surplus must be allocated to a fund for co-operative education and training.

<sup>5</sup> “The concept of ‘social economy’ can be view from a legal institutional approach that identifies co-operatives, mutual companies and associations as the main types, and also from the standpoint of the principles that these organisations share: the purpose is to serve their members or the community rather than to make profits; independent management; democratic decision-taking and priority of people and work over capital in the distribution of earnings.” (Defourny et. al., 2001)

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# By Walking, We Make the Road<sup>1</sup>

## The Different Methodologies of Technology Incubators for Popular<sup>2</sup> Co-operatives in Brazil

by Antônio Cruz\*

### Abstract

Technology Incubators for Popular Co-operatives (ITCPs) operate in about 20 Brazilian universities. Their aim is to support viable economic initiatives that generate work and income, based on self-management principles, through a teaching process involving the exchange of popular “know-how” and academic “knowledge”. However, the regional variations of the communities that have been assisted, the institutional differences of the universities involved and the varied theoretical and methodological viewpoints of those taking part have led to a variety of methodologies. This paper tries to compare the different structures and methodologies of the incubators, seeking to identify their common features and their most significant differences.



### Theme and Context

The result of the introduction of neo-liberal politics in Latin American countries in the 1990s has often been investigated and debated. Even though the general view of this kind of politics may be the object of intense discussion between neoclassic and heterodox economists, as well as between politicians and sociologists with either a conservative or critical orientation, there are still some conclusions that can be drawn: there is continuing stagnation of the regional gross domestic product (inherited from the 1980s); a sharp downturn in working conditions and

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incomes among the poorest parts of society, and a consequent concentration of incomes and wealth throughout the continent.

Among the many results of this trend is increased violence in society, manifesting itself in many ways (politically organised, against the state – as in the occupation of land or in the so-called “callejeros”<sup>3</sup> protests – or simply and more often in the form of delinquent behaviour: robbery, assaults, kidnapping, drug trafficking, etc). More positively, there has been the reappearance of associative forms of production and consumption, in both urban and rural areas, as a partial response to social movements in crisis or simply as attempts to find alternative means of survival.

The appearance of these diversified forms of “social economy” – popular co-operatives, associations of producers and consumers, exchange and trade systems, the revival of failed factories by former workers, the occupation of land, and collective production – has led Brazilian universities and those in the rest of Latin America to question their role in society.

The situation deepened a rift that has existed since the 1960s in Brazilian academic institutions between two groups with differing points of view: one group sees the university as an institution that should strengthen the existing social structures; the other sees the university as a crucial instrument in encouraging social change. Throughout the 1990s, those with the first view, hegemonic, defended the policies of increasing “academic efficiency” by introducing competition into the heart

of the academic community and bringing the university closer to the business sector by contracting out teaching and research services. Those with the opposing viewpoint, taking a clearly critical stance in relation to the first group, offered a clear and well-articulated alternative proposal to the university. They took a defensive position in favour of free public education, hoping to strengthen the weak unionisation of workers and calling for a new role for the state in supporting research and production technology.

Despite their efforts, however, this second group failed, in our view, to formulate clearly how they could adopt proposals that both suited their objectives and formed an adequate response to the existing trend towards the globalisation of big business. For example, what response could we give to the following question: “If the state reverted back to investing in research and development, exactly who would benefit – bearing in mind that the business sector in Brazil has practically disappeared and that the great oligopolistic groups have their own research and development centres, almost always in their countries of origin?”

Only a few groups of faculty members, administrative support staff and students from some of the universities have sought (in a more intuitive manner than that based on long-range political analyses) to develop different methods of dealing directly with the economic and social needs of those who are most vulnerable in an economic crisis. These groups have tried to direct their scarce resources to projects that attempt both to alleviate social needs

and strengthen popular<sup>4</sup> organisations. Examples of this kind of social action are found in the creation of community health agencies, the national literacy movement, and the organisation of the Network UNITRABALHO, a topic discussed later in this paper. It was amidst these efforts that the *university incubators for popular co-operatives* – the ITCPs – emerged.

Our objective here is to analyse the formation and operating process of university (or “technology”) incubators (ITCPs) in Brazil, comparing their different methodologies, identifying their common features and their most significant differences. After presenting our data sources for the study, a historical summary of the emergence and spread of the ITCPs will be presented. In the following section, we provide some quantitative indicators about the work of these incubators and later a comparative analysis of their different methodologies. Before the conclusion, there is also a brief note about the human resources and financial alternatives adopted.

## The Sources

Our main sources of investigation were the reports coming from each ITCP in the study “*Incubadores 2001*”, produced in partnership by the “Network of ITCPs” and the “Network UNITRABALHO” and financed by the International Ecclesiastical Co-operative Organisation (ICCO) of Holland. Therefore, almost all the data used here stem from the year 2001.

Information about two important incubators, the ITCP/COPPE-UFRJ (Rio de

Janeiro) and the ITCP-UNISINOS (São Leopoldo, Rio Grande do Sul) cannot be found in these reports. For the data referring to these, we provide notations and personal observations collated during our work over the past few years in the ITCPs of UCPEL and of UNICAMP, as well as a “web study” of their respective sites.

Those incubators still in the formation phase at the time of the “Incubadores 2001” study are not included in this paper, specifically those from the universities of Chapecó, Maringá, Sorocaba, Piracicaba, Mato Grosso and Sergipe. We should draw attention to the fact that all these were already participating in projects assisting social economy groups and by the end of 2003, new incubators had been formed in these universities.

## Historical Synopsis

The first ITCP emerged in 1996 at the Federal University of Rio de Janeiro (UFRJ) in one of the principal centres of applied technology research of South America: the Co-ordination Centre of Graduate Programmes in Engineering<sup>6</sup> (COPPE).

At this time, the COPPE/UFRJ had been criticised for its role in resolving Brazilian social problems. The key issue was: What is the technology researched at COPPE to be used for? This was at a time when a group of researchers decided to think about an alternative to the two “classic” programmes designed to combat unemployment. These were well financed by the federal government and had been the target of criticism from organised sectors of society.

The criticisms were, first, that the business incubators generally catered for an already privileged sector of society, coming from universities and research centres, whose economic initiatives generated few jobs, which in turn caused these incubators to be weighed down by high costs<sup>7</sup>; and second, that the federal government was at the time implementing professional qualification and job training programmes on a grand scale, even though these were producing poor results as investment and growth rates continued falling and unemployment<sup>8</sup> kept on rising.

After the experience of the ITCP/

COPPE-UFRJ, other university groups used this model and initiated other ITCPs. In 1998, this movement was strengthened when the incubators that had already formed a “Network of ITCPs” joined the Network UNITRABALHO<sup>9</sup>. This larger network led to an increased sharing of experiences and a new and rapid expansion of the number of ITCPs. Moreover, other incubators have emerged since then, including an attempt to set up an incubator, now established, at the Universidad de la República in Montevideo, Uruguay<sup>10</sup>. Table 1 provides a list of the incubators examined in this paper.

**Table 1**  
**ITCPs established and operating in 2001 in Brazil (listed by the type of university and in their alphabetical order).**

| Official name of the incubator  | Institution                          | Abbreviation<br>(Incubator-university) |
|---|--------------------------------------|--|
| <i>Federal Universities<sup>1</sup></i>   |                                      |  |
| 1. Technology Incub. for Popular Co-operatives                                  | Federal Univ. of Alagoas             | ITCP-UFAL                              |
| 2. Technology Incub. for Popular Entrepreneurships                              | Federal Univ. of Amazonas            | ITES-UA                                |
| 3. Technology Incub. for Popular Co-operatives                                  | Federal Univ. of Ceará               | ITCP-UFC                               |
| 4. Technology Incub. for Popular Co-operatives                                  | Federal Univ. of Juiz de Fora        | INTECOOP-UFJF                          |
| 5. Technology Incub. for Popular Co-operatives and Solidarity Entrepreneurships | Federal Univ. of Pará                | ITCPES-UFPA                            |
| 6. Technology Incub. for Popular Co-operatives and Associations                 | Federal Univ. of Paraíba             | INCOAP-UFPB                            |
| 7. Technology Incub. for Popular Co-operatives                                  | Federal Univ. of Paraná              | ITCP-UFPR                              |
| 8. Technology Incub. of Popular Co-operatives                                   | Federal Univ. of Rio de Janeiro      | ITCP/COPPE-UFRJ*                       |
| 9. Technology Incub. for Popular Co-operatives and Initiatives of RN            | Federal Univ. of Rio Grande do Norte | INCOOP-RN**                            |

| <b>Official name of the incubator</b><br><i>(continued)</i> | <b>Institution</b>                | <b>Abbreviation</b><br>(Incubator-university) |
|---|-----------------------------------|---|
| 10. Regional Incub. for Popular Co-operatives               | Federal Univ. of S. Carlos        | INCOOP-UFSCAR                                 |
| 11. Technology Incub. for Popular Co-operatives             | Federal Univ. of S. João del Rei  | ITCP-FUNREI                                   |
| 12. Technology Incub. for Popular Co-operatives             | Federal Univ. Rural of Pernambuco | INCUBACOOP-UFRPE                              |
| <i>State Universities<sup>2</sup></i>                       |                                   |   |
| 13. Technology Incub. for Popular Co-operatives             | State Univ. of São Paulo          | ITCP-USP                                      |
| 14. Technology Incub. for Popular Co-operatives             | State Univ. of Bahia              | ITCP-UNEB                                     |
| 15. Technology Incub. for Popular Co-operatives             | State Univ. of Campinas           | ITCP-UNICAMP                                  |
| <i>Community Universities<sup>3</sup></i>                   |                                   |   |
| 16. Technology Incub. for Popular Co-operatives             | Regional Univ. of Blumenau        | ITCP-FURB                                     |
| <i>Religious Universities<sup>4</sup></i>                   |                                   |   |
| 17. Technology Incub. for Popular Co-operatives             | Catholic Univ. of Pelotas         | INTECOOP-UCPEL                                |
| 18. Technology Incub. for Popular Co-operatives             | Univ. of the Vale dos Sinos       | ITCP-UNISINOS                                 |

\* COPPE refers to the Coordination Centre of Graduate Programmes in Engineering (Coordenação de Programas de Pós-Graduação em Engenharia), which is the central office where the ITCP of the UFRJ is located.

\*\* The INCOOP-RN is not just a university incubator, as it relies on the active participation of human resources from other institutions. Therefore, it is multi-institutional.

1The federal universities belong to the federal government and are connected directly to the Ministry of Education.

2 The state universities belong to and are connected with the state governments.

3 “Community Universities” are private universities directed by councils of civil bodies related to a given county or “micro” region. In general, ones that participate in these public councils (city halls) are bodies related to businesses, unions, churches and other institutions; in any case, their financial support follows the same path as any other private university.

4 “Religious Universities” are universities belonging to and directed by religious institutions. UCPEL is part of the diocese of Pelotas, while UNISINOS is associated with the Jesuit order.

Source: ITCPS/UNITRABALHO/ICCO (2001). Pesquisa Incubadores 2001. Electronic Media.

**Table 2 – Selective quantitative data and inter-incubator networks (listed according to the first year of incubator operations).**

| Incubator          | Formed | Incubated co-operatives or those under incubation* | Number of jobs (work posts) generated | Does it participate in the Network of ITCP's? | Is the ITCP associated with the local UNITRABALHO centre? |
|--------------------|--------|--|---------------------------------------|---|---|
| 1. ITCP/COPPE-UFRJ | 1996   | 24   | 2.400                                 | SIM   | NO  |
| 2. ITCP-UFC        | 1997   | 20   | 1.298                                 | NO  | NO  |
| 3. INTECOOP-UFJF   | 1998   | 12   | 444                                   | YES   | YES   |
| 4. ITCP-UFPR       | 1999   | 24   | 940                                   | YES   | NO  |
| 5. INCOOP-UFSCAR   | 1999   | 15   | 272                                   | YES   | NO  |
| 6. ITCP-FUNREI     | 1999   | 17   | 594                                   | YES   | YES   |
| 7. INCUBACoop-UFPE | 1999   | 12   | 322                                   | YES   | NO  |
| 8. ITCP-USP        | 1999   | 27   | 635                                   | YES   | NO  |
| 9. ITCP-UNEB       | 1999   | 6  | 258                                   | YES   | NO  |
| 10. ITCP-FURB      | 1999   | 7  | 302                                   | YES   | YES   |
| 11. ITCP-UNISINOS  | 1999   | 16   | 1.236                                 | YES   | NO  |
| 12. INTECOOP-UCPEL | 2000   | 5  | 411                                   | YES   | YES   |
| 13. ITCP-UFAL      | 2001   | 4  | 130                                   | NO  | YES   |
| 14. ITES-UA        | 2001   | 3  | 1.650                                 | YES   | YES   |
| 15. INCOAP-UFPB    | 2001   | 2  | 58                                    | NO  | YES   |
| 16. INCOOP-RN      | 2001   | 3  | 100**                                 | YES   | NO  |
| 17. ITCP-UNICAMP   | 2001   | 10   | 400                                   | YES   | NO  |
| 18. ITCPES-UFPA    | 2002   | 4  | 107                                   | NO  | YES   |
| TOTALS             |        | 211  | 11.557                                |   |   |

\* Only the co-operatives and jobs (work posts) created using methodologies of incubation were counted, since many incubators cater for an incalculable number of people for specific needs or provide professional training for groups of non-co-operative workers.

\*\* This is an estimate. The data provided by the study "Incubadores 2001" are insufficient to make a more precise evaluation.

**Sources:**

- ITCPs/UNITRABALHO/ICCO (2001). Pesquisa Incubadores 2001. Electronic media.
- [www.itcp.coppe.ufrj.br](http://www.itcp.coppe.ufrj.br)
- [www.unisinos.com.br](http://www.unisinos.com.br)

The ITCPs in general have just one main objective: "To make academic knowledge available to popular co-operatives, contributing to the education and consolidation of economic ini-

tatives based on self-management principles that are both economically viable and founded on solidarity"<sup>11</sup>. The specific way each incubator was structured to achieve this objective con-

stitutes this paper's main study.

It should be noted that at the end of 2002 the Network of ITCPs officially separated from the Network UNITRABALHO. There is no agreement on the exact reasons leading to this split which, in our view, was a mistake. Some ITCPs chose to participate in one of the networks while others opted to remain in both.

## Some Quantitative Data

Table 2 shows some data about the work and channels of communication (networks) of the ITCPs. It gives us an idea of the amount of work that has been achieved. Unfortunately, there are no precise data on the performance of the incubation initiatives in such fields as profit, market share, linkages in the productive chains or rate of job-creation of its associates. Also in this table we identify how each ITCP links to the Network of ITCPs and the Network UNITRABALHO.

The variety of products and services in the 211 incubated groups up to 2001 is large, ranging from manufacturing industries (metallurgical, textiles, glass) and mineral extraction (ornamental stones) to fishing, and including services such as the collection and separation of garbage, cleaning, security and tourism, as well as small-scale family agriculture. Lack of space in this paper prevents further detail.

As to the "type" of incubated co-operatives, it was possible to construct a table through the use of our own typology (see the note under Table 3) identifying the diverse forms of initiatives and the target public assisted by each incubator.

Table 3 – Types of incubated groups and target public of the different incubators (see note about the typology used)

## The Question of Methodology

The ITCPs face a number of challenges in achieving their objectives of creating effective alternatives to generate jobs and income through the formation of co-operatives based on the principles of self-management and working with generally poor, unemployed workers with little education or training. These challenges include:

**1. The economic challenge** – How can workers with characteristics described above organise and operate a business? How can such a business survive in oligopolistic and highly competitive markets, or in markets saturated by many small- and medium-sized businesses? How, under these conditions, can production be organised with the efficiency needed to make the business economically viable while guaranteeing self-management? How can financial credit be made accessible? How can they gain entrance to commercial markets?

**2. The educational challenge** – How can this type of worker, with no formal education or training, be helped to create, generate and consolidate a business that is also a collective enterprise? And to make the challenge even more complicated, how can the incubator be successful in enabling these workers, as a collective, to approach and manage information concerning (a) financial management, (b) product quality, (c) mechanisms of democratic decision-



| <b>Incubator</b>      | <b>Types of co-operatives/groups</b>  | <b>Target public</b>          |
|-----------------------|---|-------------------------------|
| 1. ITCP-UFAL          | Work/manufacturing, associated producers (urban and rural)  | Rural.                        |
| 2. ITES-UA            | Work/services, associated producers (rural)   | Rural.                        |
| 3. ITCP-UFC           | Work/manufacturing, work/services, associated producers (urban and rural)                         | Popular, middle class, rural. |
| 4. INTECOOP-UFJF      | Work/manufacturing, work/services   | Popular, middle class, rural. |
| 5. ITCPES-UFPA        | Work/services   | Popular                       |
| 6. INCOAP-UFPB        | Work/services, associated producers (urban)   | Rural, middle class.          |
| 7. ITCP-UFPR          | Work/manufacturing, work/services, Associated producers (urban and rural)                         | Popular, middle class, rural. |
| 8. ITCP/COPPE-UF RJ   | Work/manufacturing, work/services, associated producers (urban)                                   | Popular, middle class.        |
| 9. INCOOP-RN          | Work/services, associated producers (rural), consumers'   | Popular, rural.               |
| 10. INCOOP-UFSCAR     | Work/manufacturing, work/services, associated producers (urban and rural)                         | Popular, rural.               |
| 11. ITCP-FUNREI       | Work/manufacturing, work/services, associated producers (urban and rural)                         | Popular, rural.               |
| 12. INCUBACOOP-UF RPE | Work/services, associated producer (urban and rural)  | Popular, rural.               |
| 13. ITCP-USP          | Work/manufacturing, work/services, associated producers (urban and rural), recuperated businesses | Popular, middle class, rural. |
| 14. ITCP-UNEB         | Work/manufacturing, work/services   | Popular, middle class, rural. |
| 15. ITCP-UNICAMP      | Work/manufacturing, work/services   | Popular                       |
| 16. ITCP-FURB         | Work/manufacturing, work/services, associated producers (urban)                                   | Popular, rural.               |
| 17. INTECOOP-UCPEL    | Work/manufacturing, work/services, associated producers (rural), recuperated business             | Popular, rural.               |
| 18. ITCP-UNISINOS     | Work/manufacturing, work/services, associated producers (urban and rural),                        | Popular, middle class, rural. |

Classification used to construct this table:

1. Types of initiatives:

- Work/manufacturing: Production co-operatives coming from common (collective) work units geared towards some form of industrialisation.
- Work/services: Production co-operatives structured as collective work units, geared towards some form of service offered.
- Associated producers: co-operatives geared towards support and marketing of

products manufactured by individual producers. These may be urban (e.g. artisans) or rural (e.g. fisherman or beekeepers).

- Recuperated businesses: businesses (industrial or service) that failed and have been revived and reorganised into co-operatives by workers.

## 2. Type of target public:

- Popular: low income workers, with poor job prospects and little or no formal education, in general unemployed or employed in unstable, temporary jobs.
- Middle class: workers who have left university or who have some formal education or qualified experience in the job market.
- Rural: small rural producers or farmers who have been given land through agrarian reform policies.

Sources:

- ITCPs/UNITRABALHO/ICCO (2001). Pesquisa Incubadores 2001. Electronic media.
- [www.itcp.coppe.ufrj.br](http://www.itcp.coppe.ufrj.br)
- [www.unisinos.com.br](http://www.unisinos.com.br)

making, (d) the permanent search for technological alternatives, and finally (e) the preservation of health and the environment?

**3. The socio-political challenge** – How can the incubator intervene in a way that allows groups to preserve their autonomy in relation to the incubator while also building permanent self-management? How can it intervene in a manner that strengthens a sense of citizenship collectively and with the individuals involved?

## Convergent and Divergent Methodologies

### *Social partnerships*

The first common factor between the ITCPs analysed is the direct connection they all share with bodies in civil society associated with social economy alternatives. CUT (Central Única dos Trabalhadores<sup>12</sup>) and its Agency of Solidarity Development (ADS-CUT), ANTEAG (National Association of Workers in Self-Management Busi-

nesses) and the MST (the landless rural workers movement) are among the better-known partnerships. City and state governments are also among the public institutions on the list of partnerships. Fewer in number, but also worth noting, are the organisations of the traditional co-operatives: the OCB (Organisation of Brazilian Co-operatives) and SESCOOP (Social Services Co-operatives). This suggests that the ITCPs' objective of reducing the gap between universities and society is consistent with the practices of the incubators.

### *Principles of popular co-operatives*

The principles relating to the type of co-operatives that are incubated, although expressed in different ways by each incubator, can be summarised as follows:

**1. Self-Management** – All incubators work on the basis of helping to form co-operatives where the power of business decision-making is in the hands of all participants and where internal democracy is accepted, respected and practised by all.

**2. Economic Viability** – There is a consensus that the initiatives should be economically viable, guaranteeing work and income for their participants, and that this must be done within the rules of the capitalist market, at least for the time being.

**3. Valuing work** – This refers to the rejection of anything that might make working more precarious in the co-operatives. The ITCPs and the co-operatives both firmly believe that all workers' rights must be respected (such as laws concerning salaries, paid vacation and weekly rest periods) and that lowering working standards or cutting pay should never be used as competitive factors by the business.

**4. Belief in free public education at all levels** – Other principles, such as protecting the environment and fighting sexual or ethnic discrimination, have not yet been integrated into the principles stressed by the ITCPs, although such issues have been discussed in most of the incubators.

#### *Activities during the incubation process*

One aspect worth examining is the type of activities that the ITCPs carry out in conjunction with the co-operatives. In practically all of them, there are two types of activities associated with the incubation process that may occur in distinct or parallel stages, depending on the methodology adopted. These are: (a) assistance and consulting, and (b) training and qualifications. The basic objective of the first is to help the co-operatives to structure themselves and become economically viable. The second aims to ensure that the co-opera-

tives continue to grow and flourish after completing incubation.

It is important to consider how the incubators understand the question of "timing" in respect of their operations. There is convergence on the following points: 1. the start of the co-operative's operations (and thus its creation of jobs) should be in the shortest time possible – preferably within a few weeks – because of the target public involved; 2. beginning the co-operative's operations, ensuring profitability for the enterprise and income for the workers, is not incompatible with the long-term deadlines of training and qualifications, since the co-operators' initial lack of professional training will be alleviated through incubator support; 3. the incubation process itself (i.e. both the training of the co-operators and the operation of the co-operative) demands a longer period of time. This, in general, varies from two to four years, depending on the incubator.

#### *Teaching methods*

There are different ways of looking at the subject matter and teaching methods that will be used. In general, the range of assistance and training offered is limited to financial management (viability), internal democracy (self-management) and professional qualifications. Some incubators also stress the problem of researching alternative technologies (INCOOP-UFSCAR, ITCP-UNICAMP, ITCP/COPPE-UFRJ, ITCP-UFC).

The range of information dealt with during the incubation process and the breadth of its "formal" aspects (courses, workshops, etc.) vary greatly from

incubator to incubator. Almost all the incubators incorporate, to a greater or lesser extent, teaching methods associated with the popular education of young people and adults inspired by Piaget or Paulo Freire. This was specifically mentioned in the reports of the following incubators: ITCP-UFAL, ITCP-UFRP, INCOOP-UFSCAR, INCUBA-COOP-UFRPE, ITCP-USP, ITCP-UNEB, ITCP-UCPEL, ITCP-FURB, ITCP-UNICAMP. Furthermore, all the incubators, with the exception of ITCP-UNISINOS, work with the co-operative as a collective. Training is directed towards the workers as a group. Education is a precursor of the co-operatives' capacity to manage itself, since democratic decision-making demands a certain level of information and the ability to take decisions requires various types of knowledge.

### *Stages of incubation*

Practically all the incubators operate in three incubation stages, which are: (a) *pre-incubation*, (b) incubation (development) and (c) de-incubation. Allowing for differences in techniques, in general pre-incubation is characterised by a period of getting close to and identifying the potentialities of each case, with studies both of the group and of economic viability. As mentioned earlier, incubation deals with assistance and training with varying rates of progress and differing subject matter and teaching methods. Allowing for specific differences in each case, *de-incubation* aims at the separation of the incubator and the co-operative. Information that we had from the ITCP-UNISINOS showed they were an exception to the rule, at least until 2001, because they consid-

ered incubation to be an initial process of training (a course in co-operation), followed by a non-systematic period when assistance was provided according to the co-operative's specific needs.

### *Activities*

In relation to the activities of the incubators, their structures may be divided into two basic groups. On the one hand, there are those that operate with *thematic teams with a multidisciplinary focus*, i.e. teams formed in relation to specific fields of activity, such as financial management, technology management and group management, operating at different times with each co-operative but aiming towards integration of the subject matter developed. Included in this group are: ITCP-UFAL, ITES-UA, ITCP-UFC, ITCPEs-UFPA, ITCP-UFPR, ITCP/COPPE-UFRJ, INCUBA-COOP-UFRPE, ITCP-UNEB and ITCP-FURB. On the other hand, there are incubators that work with *interdisciplinary teams with a thematic focus*, i.e. a team with four or five members from different areas of knowledge operating throughout the whole incubation process, dividing work and responsibilities according to their specialisations. This was the case in the following incubators: INCOAP-UFPB, INCOOP-RN, ITCP-USP, ITCP-UNICAMP and INTECOOP-UCPEL.

### *Training of incubator trainers*

Not all incubators carry out internal "training the trainers" to equip their own staff. Not doing so implies trusting that this preparation has already been carried out during the participants' academic education. Among those who express some involvement in this

respect, and have therefore provided systematic training for their personnel, are: INTECOOP-UCPEL, ITCP/COPPE-UFRJ, INCOOP-UFSCAR, ITCP- USP and ITCP-UNICAMP. It is important to note, however, that many incubators have not covered this aspect in their reports and, therefore, the existence of such procedures (or lack of them) cannot be verified in relation to those incubators.

### *Incubator "territories"*

Another issue is related to the educational "territory" of incubation. Some incubators consider it necessary to work within the physical confines of the universities. They make a point of working with their groups in the institutions. Others, by contrast, consider that the university environment might be perceived as hostile to the co-operators and that it is better, therefore, to hold meetings and work in places where they will feel secure and at ease. INCUBACOO-UFRRPE was the only incubator that told us about a "physical incubation space" in which co-operatives work and operate.

### *Target public and assistance criteria*

There are other controversial issues in relation to the target public for the incubators. Two points will be discussed. The first relates providing assistance to workers who were not previously organized collectively. Some ITCPs include, as part of the incubation process, the organisation of groups by providing work to people living on the outskirts of town, usually in low- or no-income neighbourhoods. Others consider this approach risky, because it uses an excess of scarce human and

material resources and has uncertain results. The first view is held by ITCP-USP, ITCP-UNEB, ITCP-FURB; the second by ITCP-FUNREI, INCUBACOO-UFRRPE, ITCP-UNICAMP, INTECOOP-UCPEL, ITCP-UNSINOS.

The second point of controversy relates to priorities concerning those who should be assisted. Some incubators vehemently defend assisting only groups of workers that have been socially excluded, either in urban or rural areas. This does not include, for example, revitalised enterprises that already possess some capital. Other incubators, however, have incubated co-operatives with people who have left university and who, theoretically, are already in a privileged position due to their higher level of education.

## **Human Resources and Financing**

Most of the ITCPs operate through a group made up of university faculty members. In some ITCPs, though, the work is carried out by either a technical/administrative group of university personnel or a technical staff contracted specifically for the programme (as occurs, for example, in the ITCP/COPPE-UFRJ, ITCP-UNEB and INCUBACOO-UFRRPE). In the ITCPs of USP and of UNICAMP, although the presence of the faculty is important, the daily work of the incubators progresses essentially through the efforts of students, in particular postgraduates.

In 1999, FINEP – Financial Agency of Studies and Projects (Brazilian Ministry of Science and Technology) opened a line of credit for a total of 1.5

**Table 4 – Human resources put into action by the ITCPs (2001)**

| Incubator            | Faculty | **Technical-Administrative | Students or trainees | TOTAL |
|----------------------|---------|----------------------------|----------------------|-------|
| 1. ITCP-UFAL         | 8       | 4                          | 6                    | 18    |
| 2. ITES-UA           | 5       | 6                          | 1                    | 12    |
| 3. ITCP-UFC          | 5       | 8                          | 4                    | 17    |
| 4. INTECOOP-UFJF*    | 27      | 6                          | 35                   | 68    |
| 5. ITC PES-UFFA      | 5       | 5                          | 13                   | 23    |
| 6. INCOAP-UFPB       | 2       | 1                          | 4                    | 7     |
| 7. ITCP-UFRJ         | 7       | 4                          | 14                   | 25    |
| 8. ITCP/COPPE-UFRJ   | W/D     | W/D                        | W/D                  | ***28 |
| 9. INCOOP-RN         | 1       | 5                          | 0                    | 6     |
| 10. INCOOP-UFSCAR    | 11      | 4                          | 12                   | 27    |
| 11. ITCP-FUNREI      | 10      | 4                          | 30                   | 44    |
| 12. INCUBACOOP-UFRPE | 1       | 5                          | 5                    | 11    |
| 13. ITCP-USP         | 4       | 5                          | 33                   | 42    |
| 14. ITCP-UNEB        | 0       | 6                          | 8                    | 14    |
| 15. ITCP-UNICAMP     | 6       | 1                          | 24                   | 31    |
| 16. ITCP-FURB        | 4       | 2                          | 16                   | 22    |
| 17. INTECOOP-UCPEL   | 7       | 0                          | 33                   | 40    |
| 18. ITCP-UNISINOS    | W/D     | W/D                        | W/D                  | W/D   |
| TOTALS               | 103     | 66                         | 238                  | 435   |

\* *Only the professors who carried out activities in 2001 were counted. Among the 25 faculty members, the majority was active in a limited way with training courses.*

\*\* *All the technical staff were counted, without evaluating the significance of their connection to the university, to the project or to partnerships.*

\*\*\* *There are still about 70 people working on projects that are not directly related to incubation, outside of RJ. Data: 2003.*

Sources:

- ITCPs/UNITRABALHO/ICCO (2001). Pesquisa Incubadores 2001. Electronic Media.

- [www.itcp.coppe.ufrj.br](http://www.itcp.coppe.ufrj.br)

million Brazilian reais (approximately US \$500,000) that was to be distributed in that year and the next. These funds fuelled the work of six incubators in the so-called PRONINC – Programa Nacional de Incubadoras de Cooperativas<sup>13</sup>. Since then, the incubators have been operating through the efforts of each person to obtain funding. Besides

the resources allotted to each university, which vary enormously from institution to institution, the city and state governments have been the principal sources of financial assistance. Sources of funds, as well as the ITCP's own capacity to gather resources, vary in each case. As always, this is one of the main problems faced by the ITCPs.

## Conclusion – Building an Agenda

This paper does not intend to carry out a critical analysis of the methodologies of the ITCPs in Brazil. Although critiques exist in the form of exploratory studies or Master's theses, in general when criticism is made, it tends to be aimed at just one incubator or at specific aspects of the problem, without taking into account the actions of the incubator (or incubators) as a whole. This leads to generalisations by focussing on only one or two of the better-known ITCPs. It is also not our aim to discuss and analyse the "high points" or "low points" of incubator initiatives or their problems and possible solutions. With more time and space, we will concentrate on these subjects on another occasion. Another subject – the feasibility and success of the incubated co-operatives – depends on more detailed research about the incubators, which would demand a great deal of coordination between them.

In this paper, besides offering a descriptive summary of the work and of the complexity of the incubators' activities, we aim to compare their principles, structures and operating methods.

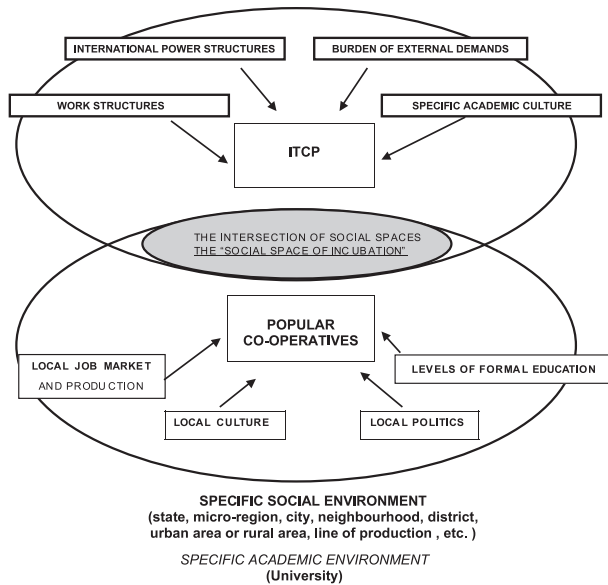
The heterogeneity of the format of the incubators results from the effort needed by each ITCP to make itself viable as an academic activity. It is important for them to adapt the common principles of incubators, which are almost universally accepted, to their own institutional structures. But there are many other decisive factors, among these the fact that the workers with whom they have contact vary from

place to place, because of Brazil's great regional diversity. The workers may consist of small-scale milk producers of German descent in the region of Pelotas (southern Brazil), garbage collectors from the city of São Paulo (central Brazil) or latex or coconut extraction workers in the state of Amazonas (northern Brazil). These all share many aspects in common but there are also significant differences. Finally, there are also still many different theoretical and methodological viewpoints among the principal players in the universities.

This means that incubation produces a social and pedagogical gap between the two distant "worlds" that converge: the world of academic knowledge, concentrated in the universities, and the world of popular know-how and life experiences among the workers. And, in each ITCP, a different type of encounter is found, since each university has a system of relating to the community that is more or less unique, as are its power and work structures. Each university has its own "academic and institutional culture", just as each micro-region in which we find an ITCP also has specific economic and cultural characteristics. Therefore, the incubation of co-operatives converges at the intersection of these two social worlds: the university and the community. In the graph below, we try to illustrate the complexity of the incubation process in the light of this process.

A logical conclusion and a reasonable proposal both emerge from this. The conclusion is that it may be inconsistent and useless to search for "one methodology" for the ITCPs. Perhaps it is the variety that makes them richer and

**Graph – Specific university and community environments form specific social environments for incubation.**



more efficient in meeting their objectives.

In our view, two things that need urgently to be encouraged are communication and a “system of exchange” between incubators. It is fundamental that more debate should be initiated to spread and share ideas, experiences, models and proposals effectively. These questions need to receive the academic attention they deserve. It is almost unbelievable, for example, that very few researchers outside Brazil who are involved in the subject of the social economy are familiar with these experiences. It is also quite unbelievable that the Network of ITCPs still does not have, at the time of writing, a web site and that few individual incubators have them.

The first basic way to overcome this

problem is to unify, once and for all, the discussion forums that were separated by the controversy between representatives of the Network UNITRABALHO and the Network of ITCPs. A scientific journal focussing on this subject needs urgently to be created. Regular symposiums and congresses between participants are also required, concentrating on a list of agreed topics that should be studied scientifically. These opportunities for discussion could become the spark for new and better practices adapted to the needs of each incubator. It also seems logical, in terms of what we have seen up to now, that universities, social partnerships and the government could make an effective bet on the future by increasing the number of ITCPs and their capacity to act. This could bring important results from a



## Appendix: Territorial distribution of the ITCPs in Brazil.



\* The units mentioned between parentheses and with an asterisk (\*) correspond to the Centres of UNITRABALHO or ITCP's that had already started incubation activities but were still at the stage of establishing the incubator at the time of the base study and, therefore, whose data were not analysed in this paper (see earlier text).

scientific point of view. More fundamentally, from a social perspective, it would mean the creation of a greater number of qualified jobs.

Finally, we must mention the importance of the involvement of other ITCPs or similar bodies in other countries, especially in Latin America. This diversity enriches debate, reduces the poten-

tial for minor conflicts and strengthens the potential for action that would integrate the continent both through the universities and the co-operatives themselves. After all, we are talking about a "Network of University Incubators for Popular Co-operatives". Nothing is lost if this network were Latin American and not just Brazilian. □

## Notes

- 1 The title of this article is a reference paying homage to the book *"We make the road by walking"* (Philadelphia: Temple University Press, 1990). In Portuguese the title is: *"O caminho se faz caminhando"*). This book by Paulo Freire and Myles Horton discusses the two authors' experiences in the popular education of young people and adults.
- 2 Translator's note (TN): The term "popular", as used in Brazilian Portuguese, is understood differently in English. In this text it refers to that part of the population belonging to low-income groups who also have little or no formal education or vocational training.
- 3 *"Protesta callejera"* is the term used to describe the street protests of rural workers, the unemployed and other socially excluded groups in Argentina, Uruguay, Bolivia and other Latin American countries. These protests frequently took the form of the interruption of traffic routes through the construction of barricades, resulting in confrontations with the police. In Spanish, the term *"callejo"* refers this practice of cutting off the traffic routes through the use of *"cortes de ruta"* or *"cortes de calle"*.
- 4 TN: The term "popular organisation" refers, in general, to social movements.
- 5 These are located respectively in the states of Santa Catarina, Paraná, São Paulo, São Paulo, Mato Grosso and Sergipe. See the map in the appendix at the end of this paper.
- 6 TN: In Portuguese, Coordenação de Programas de Pós-Graduação em Engenharia (COPPE).
- 7 For more information about the business incubators in Brazil, consult the site [www.anprotec.org.br](http://www.anprotec.org.br) of the Brazilian Association of Business Incubators.
- 8 To evaluate the professional qualification programmes of the Brazilian government, there are papers that can be accessed through the Network UNITRABALHO web page ([www.unitrabalho.org.br](http://www.unitrabalho.org.br)).
- 9 "Rede Interuniversitária de Estudos e Pesquisa sobre o Trabalho" (the Inter-university Network of Studies and Research about Work) was founded in 1995 and unites faculty and researchers from diverse areas of knowledge. Their focus of investigation is the so-called "world of work". When the Network of the ITCPs joined UNITRABALHO (1998), there were already eight ITCPs. In addition, "núcleos locais" (local centers) of the Network UNITRABALHO were already operating in 45 universities.
- 10 By means of an exchange programme between the INTECOOP-UCPel and the *Unidad de Estudios Cooperativos*, associated with the Dean of Extension of UDELAR. We have had the pleasure of co-operating with Uruguayan colleagues in the setting up of their incubator.
- 11 ITCP-COPPE/UFRJ (1998), Ossos do Ofício. Rio de Janeiro: UFRJ.
- 12 TN: CUT (Central Única dos Trabalhadores) is the biggest national workers' union in Brazil.
- 13 Currently, SENAES - Secretaria Nacional de Economia Solidária (National Secretariat of the Solidarity Economy) is directed by Professor Paul Singer, who was part of ITCP-USP before joining the Government of President Lula. Professor Singer has been attempting to re-start PRONINC.

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Sanchez, Fabio and Kruppa, Sônia. *Metodologias de incubagem – uma tentativa de problematização (versão preliminar) – Projeto Incubadores 2001*. Electronic media.

## **Recommended web sites**

[www.itcp.unicamp.br](http://www.itcp.unicamp.br)

[www.itcp.coppe.ufrj.br](http://www.itcp.coppe.ufrj.br)

[www.cecae.usp.br/itcp](http://www.cecae.usp.br/itcp)

# An Analysis of Regulated and Voluntary Sustainability Reports from Commercial Banks and Financial Services Co-operatives

by Marie-Josée Lapointe and Adil Belhouari



Financial services co-operatives (FSCs) give themselves a twofold mission: offering competitive financial services to their members while contributing to the social wellbeing of their communities. In assessing their performance,

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both financial results and their social and environmental contributions should therefore be considered. Over time, standards have been established for financial reporting. However, as yet there is no worldwide consensus

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around a set of sustainability reporting guidelines. Indeed, the current context of social and environmental performance measurement is characterised by heterogeneous legislative initiatives, emerging accreditation organisations and independent initiatives being adopted or proposed around the world. The purpose of this exploratory research is to study the regulated and voluntary sustainability reports of financial institutions. We present two frameworks that guide sustainability reporting, analyse their impact and examine the link between financial and non-financial performance using quantitative data.

## **Corporate Social Responsibility and Sustainability Reporting**

Although there is no universal definition of the term, corporate social responsibility (CSR) is generally understood to be the integration of economic, environmental and social considerations into the structures and decision-making processes of companies while acknowledging the interests of their stakeholders, i.e. investors, customers, employees, business partners, the local community, the environment and society as a whole. CSR can be synonymous with the concepts of “triple bottom line” (people, profit, and planet) and sustainable development. As noted by René Carron, President of Crédit Agricole S.A., there is currently a genuine interest in the idea of sustainable development.

The objective in publishing sustainability reports is thus to account for the eco-

nomic, environmental and social aspects of an organisation’s performance (the so-called “triple performance”). The practice of publishing this kind of report as a supplement to annual financial reports is becoming increasingly widespread. Heightened transparency expectations by organisations’ stakeholders, the acknowledgment that reputation is a key factor which can be influenced by a business’s economic, environmental or social performance, and the appearance of regulatory initiatives have all contributed to this phenomenon.

Some organisations also feel that publishing CSR reports is the logical expression of their social values, that it is a key tool in implementing, pursuing and improving their commitment to and dialogue with their stakeholders, and that it increases the effectiveness of business management and governance.

## **Regulated or Voluntary Sustainability Reports?**

In the United States, reports have been required from financial institutions since 1977. Following demands from associations regarding banking practices that involved refusing loans to discriminated residents, the *Community Reinvestment Act* (CRA) was enacted by the US Congress in 1977 and integrated into the political and legal context of the fight against discrimination. The CRA is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighbourhoods, in a manner consistent with sound banking opera-

tions. The main objective of the CRA is “fair lending,” i.e. the absence of any credit-access discrimination based on colour, national origin, religion, sex, domestic situation or age. Between 1977 and 1992, agency ratings and bank records were kept confidential. Since 1992, reports have been made public. Since then, the CRA’s impact has been considerable. In the light of an informed public, banks with poor ratings have been obliged to account for themselves in the public arena.

Within the framework of a five-year review of legislation regulating financial institutions, the Canadian federal government adopted *Bill C-8* in June 2001. The series of reforms enacted by *Bill C-8* include the obligation for financial institutions under federal jurisdiction and with capital over \$1 billion to publish annual Public Accountability Statements (PAS). The objective of these Statements is defined as the description of the institution’s contribution to Canadian society and its economy. Since 2002, legislative requirements have been applied in Canada with regard to reinvestment in the community. However, this requirement only extends to commercial banks; for their part, FSCs fall under provincial jurisdiction.

Above and beyond the regulatory context, since the mid-1990s leading businesses have tended to meet societal expectations by broadening their definition of social responsibility and by voluntarily publishing performance reports in this regard. In 1998, the UK Co-operative Bank became the first financial institution to publish voluntarily a sustainability report verified by

an outside firm, and the United Nations Environment Programme (UNEP) and SustainAbility declared its *Partnership Report 2001* to be the best in the world.

However, since the notion of CSR has given rise to a multitude of interpretations, sustainability reports have tended to be just as varied. Businesses have adopted a wide range of tactics, management systems, norms and tools for implementing CSR management practices and for documenting their performance. Among others, these include:

- **SA8000 from Social Accountability International:** Standard focusing on the work and the working conditions of the employees.
- **London Benchmarking Group Model:** Tool for managing, measuring and comparing community contributions with other companies.
- **AA1000 from the Institute of Social and Ethical Accountability:** Standard designed to improve social responsibility and performance of the company by involving its stakeholders in the process.
- **The Good Company Guidelines from the Canadian Business for Social Responsibility (CBSR):** Directives enabling companies to evaluate, improve and report on their social, environmental and financial performance.
- **The Global Reporting Initiative (GRI) Guidelines:** Framework for reporting on an organisation’s economic, environmental, and social performance.

Among these, the GRI Guidelines appear to have risen to prominence. Launched in 1997 as a joint initiative of

the US non-governmental organisation Coalition for Environmentally Responsible Economies (CERES) and UNEP, the GRI is now affiliated with the United Nations as a UNEP Collaborating Centre. Its mission is to raise sustainability reporting methods to a level equal to those of financial reports, with particular attention to the comparability, credibility, rigour, frequency and verifiability of the reported information. This initiative has received the active support and commitment of various organisations which have worked to build a consensus around a series of guidelines, with a view to their being adopted internationally.

In addition to the GRI Guidelines, there is also the pilot version of the *Financial Services Sector Supplement for Social Performance*. This supplement is based on the experiences of financial institutions which have pursued a sustainable development strategy for a period of time, and the GRI hopes to include economic and environmental performance in future versions of the document. At present, the GRI approach appears to be the most developed one. However, despite its breadth, it can be argued that the GRI approach is not exhaustive and that some relevant subjects, such as governance, are not covered.

There are many other voluntary, legal or statutory initiatives for the publication of information on sustainability. This phenomenon can be observed in many areas throughout the world: Australia, the United States, Taiwan, Japan, and the countries belonging to the European Union such as France, the Netherlands, the United Kingdom and Denmark. The idea of a relationship

between the commitment of companies towards social and environmental performance and value creation for the stakeholders is progressing rapidly.

We then studied how FSCs and commercial banks report on their non-financial performance by doing a comparative analysis of 20 sustainability reports. Our analysis revealed that American and Canadian legislative frameworks strongly influenced reports by these banks. However, the sample's FSCs and European banks that voluntarily published sustainability reports tended to follow more closely the GRI Guidelines and provided more quantitative information about their performance with regard to capital providers, employees, suppliers and the environment.

We can thus observe that commercial banks, which are subject to requirements imposed by government legislation or which voluntarily choose to assume a certain number of social responsibilities, account for activities related to a set of ethics and principles which have long been associated with co-operatives: honesty, transparency, social responsibility and altruism, and commitment to the community by a way of contributing to sustainable development. The co-operative distinction thereby becomes less obvious for stakeholders who are not well informed.

## **Link between Financial and Non-Financial Performance**

In this context, it is relevant to inquire into the relationship between financial objectives and social objectives.

Indeed, this relationship can be conflicting, inasmuch as the social mission entails “costs” that inhibit financial objectives. On the other hand, it is possible that customers value social performance, in which case good social performance would contribute to the attainment of financial objectives. In order to analyse this link, we statistically studied two questions: the existence of a significant difference between how commercial banks and FSCs report on their social performance, and the correlation between social and financial performance.

Since no data were available on this subject, a database with social, environmental and financial performance indicators was constructed by examining the websites of 134 financial institutions around the world (25 FSCs and 109 commercial banks). The preliminary sample was selected from the June 2003 Bank Atlas – the top 200 of Euromoney magazine – and from the July 2003 Top 1000 world banks of *The Banker* magazine. Of the 109 commercial banks, 74 did not meet the eligibility criteria, i.e. to have produced a sustainability report in 2002 either as a separate report, as part of the organisation’s annual report, or as a web-based report, and to have provided quantitative data on social and environmental performance. Most Canadian and American banks were eliminated from the sample due to the unavailability of environmental data. Of the 25 FSCs, 19 were not eligible because they did not publish a sustainability report. The preliminary sample thus went from 124 to 41 institutions - 6 FSCs and 35 commercial banks, consisting largely of European financial

institutions. Moreover, 48.6% of the commercial banks and 50% of the FSCs in the sample indicated that they used the GRI guidelines.

Of the 16 existing financial performance variables in our initial database, we selected the four most widely used financial ratios in the literature to measure the institutions’ financial performance (Preston and O’Bannon, 1997). For the purposes of comparability, we opted to obtain these data from *The Banker* magazine’s Top 1000 world banks:

- PROF\_CAP (%): Profits on average capital
- ROA (%): Return on assets
- COST\_REV (%): Cost/Income ratio
- BIS (%): Bank for International Settlements Capital Ratio

The inadequacy of the data from the sustainability reports for most of the 12 social and environmental performance variables obliged us to eliminate several of these indicators (training budget, training hours/employee, waste produced and recycled, business travel and CO2 emissions), which left us with four variables:

- DONATIONS (Millions \$): Donations to community, civil society and other groups (GRI EC10)
- ELECTRICAL (kWh per employee): Total electricity use (GRI EN3)
- WATER (Litres per employee per day): Total water use (GRI EN5)
- PAPER (kg per employee): Total paper use (GRI EN1)

We purified the database in order to treat the missing values through linear regressions by institution type, with a view to determining assigned values. In



addition, all variables were standardized by dividing by the standard deviation to eliminate size and unit of measurement effects. The descriptive statistics of the eight variables can be found in Table 1.

In order to perform our comparative analysis, we started with an equality of variances test and demonstrated that there is a significant difference in the distribution of the variance of all eight variables for commercial banks vs. all eight variables for FSCs ( $p$ -value = 0.0001).

In order to compare performances between commercial banks and FSCs, we considered a first hypothesis test:

H0: There is no significant difference between the performances of commercial banks vs. FSCs.

H1: There is a significant difference between the performances of commercial banks vs. FSCs.

To test this first hypothesis, the multivariate analysis of variance test (MANOVA) was used, the results of which are presented in Table 2.

According to the four most robust tests

**Table 1 Descriptive statistics of the sample**

| Variable   | Average  | Standard deviation | Median   | Minimum  | Maximum   |
|------------|----------|--------------------|----------|----------|-----------|
| PROF_CAP   | 15.18    | 13.75              | 16.10    | -22.40   | 38.80     |
| ROA        | 0.76     | 0.64               | 0.76     | -0.62    | 2.08      |
| COST_REV   | 65.46    | 10.63              | 65.46    | 41.57    | 87.58     |
| BIS        | 11.72    | 1.75               | 11.72    | 8.79     | 17.30     |
| DONATIONS  | 40.06    | 85.86              | 15.79    | 0.03     | 537.04    |
| ELECTRICAL | 7,029.27 | 4,239.58           | 6,075.00 | 1,531.36 | 20,619.91 |
| WATER      | 63.71    | 43.79              | 63.71    | 11.49    | 259.95    |
| PAPER      | 152.01   | 96.26              | 152.01   | 29.75    | 368.97    |

**Table 2 Results from the multivariate analysis of variance test (MANOVA)**

| MANOVA Test Criteria and Exact F Statistics for the Hypothesis of No Overall COOP Effect |            |         |        |        |        |
|--|------------|---------|--------|--------|--------|
| Statistic  | Value      | F Value | Num DF | Den DF | Pr > F |
| Wilks' Lambda  | 0.82195042 | 0.87    | 8      | 32     | 0.5541 |
| Pillai's Trace   | 0.17804958 | 0.87    | 8      | 32     | 0.5541 |
| Hotelling-Lawley Trace   | 0.21661840 | 0.87    | 8      | 32     | 0.5541 |
| Roy's Greatest Root  | 0.21661840 | 0.87    | 8      | 32     | 0.5541 |

to compare simultaneously averages of all eight variables for commercial banks vs. all eight variables for FSCs, Table 2 shows that there is no significant difference in the performance of the two groups. This observation was confirmed by the findings of univariate tests, all of which revealed no significant differences between the performances of both types of institution for each individual indicator. This may be due to the small FSCs sample size.

Our second hypothesis sought to demonstrate the level of correlation between financial performance and social and environmental performance.

H0: There is no significant canonical correlation between financial and social/environmental performance.

H1: There is a significant canonical correlation between financial and social/environmental performance

To do so, we used the canonical correlation technique. The results are given in Table 3:

According to the four most robust canonical correlation tests, there is a significant canonical correlation between

the four financial performance and the four social/environmental performance variables. The analysis also revealed that, on its own, the first factor accounted for more than 89% of the total variability, thereby demonstrating the validity of our analysis and of the measures used. However, the tests performed do not provide the direction of causality. More data and analysis would be required to determine if good financial results allow financial institutions to invest and therefore perform well on the social/environmental front or if good financial results come from good social/environmental performance appreciated by stakeholders.

## Conclusion

This analysis has demonstrated that the framework used to produce sustainability reports conditions the nature of the information revealed. Financial institutions that publish sustainability reports under the same regulation framework are fairly homogeneous. However, since the pursued objectives are different in each country, the legislative requirements differ. On the other hand, commercial banks and

**Table 3 Results from the canonical correlation test**

| <b>Multivariate Statistics and F Approximations</b> |              |                |               |               |                  |
|---|--------------|----------------|---------------|---------------|------------------|
| <b>Statistic</b>                                    | <b>Value</b> | <b>F Value</b> | <b>Num DF</b> | <b>Den DF</b> | <b>Pr &gt; F</b> |
| Wilks' Lambda                                       | 0.42526653   | 2.05           | 16            | 101.45        | 0.0166           |
| Pillai's Trace                                      | 0.63909568   | 1.71           | 16            | 144           | 0.0505           |
| Hotelling-Lawley Trace                              | 1.20348485   | 2.41           | 16            | 60.242        | 0.0072           |
| Roy's Greatest Root                                 | 1.07137685   | 9.64           | 4             | 36            | <.0001           |

FSCs that voluntarily publish sustainability reports adopt a variety of heterogeneous approaches, even for those adhering to the GRI Guidelines. Nonetheless, a consensus appears to exist with regard to the principles of sustainability reporting, but not at the implementation level.

The quantitative analysis showed that there is no significant difference in the performance of the commercial banks vs. the FSCs for the variables studied. On the other hand, there was a significant canonical correlation between the financial performance and the social/environmental performance of the financial institutions studied. A greater FSCs sample size would be required to pursue the analysis and to evaluate the canonical correlation between the financial performance and the social/environmental performance for each of the two types of institution. We know that FSCs must translate their social values into action in accordance with their co-operative status while remaining competitive. In recent years,

this has been considered as a competitive advantage. But as competitors publicise stakeholders' commitment/involvement which has traditionally been associated with co-operatives, FSCs will not be able to rely on this advantage in the future without adopting new practices. Sustainability reporting is a growing trend with an increasing credibility due to legislative initiatives and accreditation organisations worldwide. FSCs should therefore consider issuing sustainability reports and make sure that frameworks are adapted to them.

Further analysis of the regulated and voluntary sustainability reports of commercial banks and FSCs is required. Increasing the content of the current database built for this research both in terms of number of financial institutions and variables would provide better analysis and a substantial contribution to the domain. □

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## Notes

- <sup>1</sup> Co-operative Insurance, Credit Suisse Group, Deutsche Bank AG, Development Bank of Southern Africa, Rabobank, Swiss Re, The Co-operative Bank, UBS AG, Westpac Banking Corporation, Zürcher Kantonalbank.

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# A Study of Mergers in the UK Consumer Co-operative Sector

by Roger Spear\*

This paper examines mergers of UK consumer co-operatives during the 20th century. There were about 1,400 co-operatives at their peak in 1904. This did not change too much for the first half of the century, but by the 1960s the pace of mergers had begun to gather. This reached a peak in the 1970s, and has now tailed off with only about 45 societies remaining. There is currently one large national society and several large regional societies – these comprise most of the consumer co-operative sector.

This study was initially prompted by the view that mergers of co-operatives do not take place easily – there are governance issues as well as institutional and ideological barriers which mean that mergers of last resort often take place; and that during periods of concentration which occur periodically in industrial sectors, co-operatives are disadvantaged by this incapacity to merge and suffer market decline or failure.

There are several types of mergers:

- Horizontal: these are within the same industry;



- Vertical: typically this involves vertical integration, when suppliers are taken over or merged.
- Conglomerate mergers which are a mix of these two.

This paper is only concerned with horizontal mergers, since this is central to the concentration process.

## Contextual Factors Leading to Business Mergers

The following factors are regarded as important influences on the tendency for firms to merge. The first two are related to increasing globalisation,

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which typically involves competition from large firms. The third refers to government policies to combat globalised competition and sustain national enterprise.

- Increased international trade
- Foreign investment
- Government intervention policy
- Concentration and competition

Within a specific sector there will be initiatives to increase enterprise size to combat competition (global or local). This is to exert influence in markets, and because large enterprises influence institutions and government policy. This can be seen in sector trends where in many cases increased concentration may be observed over a period of time (as measured by market share of the top five firms).

Concentration and competition are regarded as particularly important. Mergers, in this view, arise because of the level of competition in the sector and the extent to which there is a high degree of competition within the industry. Thus if there is a higher level of competition, there will be strong pressure for improving efficiency and this may lead to mergers. They are a defensive reaction against high competitiveness. In this perspective mergers would impact on competitiveness in a sector. This would influence the level of concentration in the sector.

Concentration (in an industry) may be measured by the level of business held by the largest firms in an industry – for example, the five firm concentration ratio is the proportion of industry assets accounted for by the largest five firms. (cf. Top Five firm concentration ratio (Gough, 2000; p109)). It is also possible

to consider other dimensions of size, such as total assets, employment, turnover, etc.

Institutional factors also play a part in influencing mergers – in particular deregulation reduces protection in a sector and increases competition.

## **Hypotheses about Mergers**

The initial hypotheses which prompted this study were to do with observations that in an economic downturn, and in response to waves of concentration in a sector, co-operatives did not appear to merge at the same rate as conventional business; and a recognition that there appeared to be barriers to mergers in social economy organisations.

In terms of conventional business the rationale for mergers is regarded as being due to the following drivers: greater profitability, speculative motives, stakeholder/manager motives. Real changes to demand or costs are said to be due to increases in the market power or reduction of costs of the firm.

### ***Greater profitability through economies of scale***

It is argued that mergers can lead to a reduced cost base – economies of scale or greater efficiency (cf. Gough, 2000 – p95/6). There is a strongly held view that many industries have an economy of scale which leads to increasing size of business organisation. The reasons for economies scale may be to do with facilitating specialisation of labour, the use of more efficient machinery and equipment, and the advantages of bulk buying. Size may also improve a firm's abil-

ity to raise capital and so reduce costs in this way.

However, dis-economies of scale may be incurred because of transaction costs and information costs associated with larger size. Thus dis-economies may be due to bureaucracy of larger organisations and inflexibilities to do with larger scale business systems. And there are economic theories that indicate that there may be a minimum cost for a specific size of a particular organisation in a particular sector/industry. Organisations tend to cluster around the minimum point of this cost output curve.

The evidence seems mixed: in studies of economies of scale in building societies (mutual savings and loans societies) there is a study by Ghosh (1974) who found that there was no clear evidence of economies of scale in building societies, because there was no clear association between management expenses and size. There have been other studies such as Greer, who argues that data justified mergers into larger units; whilst Gough found that larger building societies were not more efficient.

Gilchrist and Rothwell (1998) argue that there are clear advantages of economy of scale for the larger group of organisations in their sample. We may conclude on the evidence of the building societies that there is not clear evidence of economies of scale, and that there may be other factors explaining difference in cost base, such as the importance of the number of branches.

***Greater profitability through greater economic power (due to size)***

Another way of examining efficiency is to do with profitability – here the argument is that large profits may be as a result of market power, and this may or may not reflect efficient scale of operations. Market power may be increased by improving the demand characteristics for a firm's products or raising various entries in the market.

Gough (ibid) found in his study that there was no clear relation between profit and the size of building societies. However there does appear to be evidence that there are economies of scale for very small societies. But the evidence for larger societies is weak and inclusive. This view may be confirmed by evidence of patterns of mergers in the building society sector that has shown that the majority of mergers has been amongst smaller societies (Gough,2002).

In the building society sector there has been a general increase over the years from 1950 onwards in the Top Five firm concentration ratio (the higher the concentration, the lower the competition – this is the argument although one can make competing claims). Those might be argued in the case of the largest retailers in the UK (Tesco versus Sainsbury versus Walmart/Asda).

#### ***Speculative motives (share prices)***

This theory is due to shifts in the expectations of shareholders and non-shareholders either optimistically or pessimistically, leading to incentives by non-owners to buy the shares and so opening up the possibility of mergers or takeovers. (This situation does not apply in most social economy organisations).



### *Stakeholder motives – especially managers*

This refers to growth or its associated rewards:

- a) Growth as a business objective
- b) Serving the interests (and rewards) of different stakeholders

**Directors** – to achieve more challenges

**Managers/staff** – to gain more pay + better conditions

**Members** – to gain a bonus or additional payments on merger

**Customers** – to achieve better service/lower cost.

In addition there are interesting views on the profits of promoters of mergers versus the insider (manager) who gains due to his or her better information. There has been some evidence (e.g. Gort) indicating that mergers are generally unprofitable from the perspective of the stockholders of the acquiring companies.

There are several alternative theories about the goals of large business organisations that fit with this managerialist perspective; many emphasise that managers are actively pursuing their own ends in relation to salary, status, prestige etc. And several theories emphasise the trading of profits against growth. This is because size is more often closely related to the managerial goals just mentioned than profit; thus a larger organisation tends to provide larger salaries to create greater status and prestige for its executives, and provide better promotion opportunities. There are several theoretical perspectives associated with this view: Baumol sees the “managerial” theory of the firm as a

maximisation of sales revenue; Marris sees the theory of the firm as a maximisation of growth; and Williamson sees the managerial theory of the firm as maximising managerial utility.

In contrast, and again associated with this perspective, reasons for the failure of proposed mergers or poor subsequent performance may be due to:

- No jobs for managers, relocation problems;
- Branch and business incompatibilities (thus proximity may be a factor in mergers – location of head office).

Thus barriers to mergers may be due to senior managers not having a position in the new structure, decisions about the location of head offices, especially if they are some distance apart; and changes in the balance of power amongst senior managers.

On the other hand, smaller organisations have the advantage of a smaller “distance” between people dealing with investors and borrowers and managers dealing with the policy matters. This thus reduces agency and information problems. Smaller organisations also have the advantage of being closer to their community, having possibly more limited, but more local, activities with a lot of informal links between the customer base and members of the organisation. Thus there are countervailing influences on mergers.

### **Co-operative Merger Hypotheses**

There are, in addition to conventional business pressures (and hypotheses) towards mergers, a number of hypotheses specific to co-operatives that may

explain the tendency to merge or to avoid merger.

### *Defensive – mergers of last resort*

Dewey (1961) has put forward the view that mergers are an inexpensive way for failing firms to liquidate their assets – a merger of last resort. There may also be tax advantages in mergers.

Mergers of last resort are frequently said to occur in the co-operative sector and there is plenty of evidence to support this view. Such mergers occur when there is no alternative other than economic failure, due to liquidity problems, fraud and protecting the interests or investments of members, etc.

### *Relations between co-operatives*

In principle, if a co-operative wants to merge, it is likely to find greater understanding of its distinctive character from other co-operatives, so mergers with other co-operatives is likely to be preferred. In addition, since co-operation between co-operatives is a co-operative principle, such mergers may arise from a partnership built up over a number of years.

### *Institutional factors outside – deregulation*

In some areas of the world, co-operatives have some protection given to them by the state, often in exchange for fulfilling a state objective – such as assisting a poor community or helping poor farmers. However, with increasing globalisation such bargains are being re-assessed and markets are becoming more deregulated. This deregulation is likely to increase competition and the pressure to merge. Institutional factors (within sector)

There may also be institutional factors that support mergers. Thus government policy may favour the creation of larger co-operatives (or federal bodies); co-operative unions or federations may have policies favouring mergers, etc. In the UK for example there have been several national federation reports favouring merger, e.g. the Wilson Committee for building societies (Gough p158), and in the co-operative sector several committee reports recommending mergers (see later details).

On the other hand various institutional factors may inhibit mergers, thus an ideology (co-operative principle) favouring co-operation between co-operatives is likely to inhibit competition between co-operatives, or at least find ways of managing the boundaries of such competition (geographical boundaries, for example, or by product/service differentiation).

## **Lack of Co-operative Mergers – Hypotheses**

This leads into a consideration of hypotheses for a lack of co-operative mergers. And it is possible to suggest four possible hypotheses, the first three of which are interlinked.

### **Weak Governance Structures**

As argued in another paper (Spear, 2004) co-operatives and mutuals have weak governance structures due to a lack of institutional investors and the difficulties in mobilising large numbers of members through the democratic process to exert governance pressure on boards. Thus boards are often reactive to managers rather than exerting effective control and direction on the enterprise.

### *Weak market for corporate control*

In addition, due to the difficulties of accumulating shares (one person one vote) and a lack of institutional investors, the market for corporate control is weak and under-developed. This means the threat of hostile takeovers is virtually non-existent, thereby reducing a pressure to merge with a friendly partner.

### *Autonomy of managers*

Given the above context, there is less pressure on managers, who thus have more autonomy than in conventional business. By the law of averages some managers will be less effective than others, but one would expect them to lose their jobs with conventional business structures. In the weaker governance contexts that apply in co-operatives, this can lead to situations of ineffective or “sleepy managers” holding sway with little prospect of dislodging them.

### *Local/community roots*

Many co-operatives and mutuals have strong local community relations; their values and democratic structure enhance this dimension of their character, and it is regarded as a strength. Thus there may be ideological reasons for preserving this; and in addition for board members and senior staff there may be the prospect of loss of jobs and prestige, etc. associated with a merger and the moving of office headquarters, etc.

There are also important issues of democracy – how to develop appropriate structures in a new and larger configuration. And in cases of merger, there are issues about how dissemina-

tion of information amongst members should be conducted. For example, in the case of building societies it has not always been the case that members have been properly consulted prior to mergers; indeed a ballot is not required for a transfer of engagements or in the case of a union.

## **Mergers: Evidence from UK Consumer Co-op Sector**

The UK context for retail consumer co-operatives has seen increasing competition over the 20th century. Retail price maintenance (RPM) was abolished in 1963/4, since when price competition has gathered pace. With this has come increasing concentration – with the largest five retailers (all quoted companies) taking an ever-greater share of the retail market. Evidence of economies of scale may be seen in a number of areas: the national branding which this allows, and the capacity to invest in large out-of-town shopping hypermarkets. Evidence of market power can be seen in their increasing dominance of supply chains, with periodic complaints by suppliers about the intensity of pricing pressure.

It is interesting to note that this may not represent a decline in real terms, rather a failure to grow to meet new demand – for example, the turnover at 1992 prices was about £5bn in 1945, growing to £7bn in 1950, but has returned to £5bn during the period 1970-1990.

Similarly in the co-operative sector the largest five consumer societies have increased the percentage of turnover amongst co-operatives from 40% in 1965 to about 90% in 1990. Recognition

of the need to strengthen market power of procurement can be seen in the formation of the Co-operative Retail Trading Group (CRTG), which was set up to facilitate access to co-operative buying power.

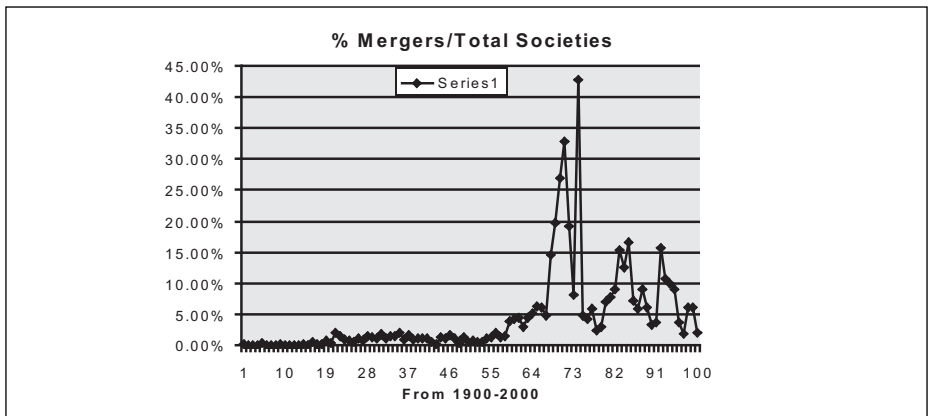
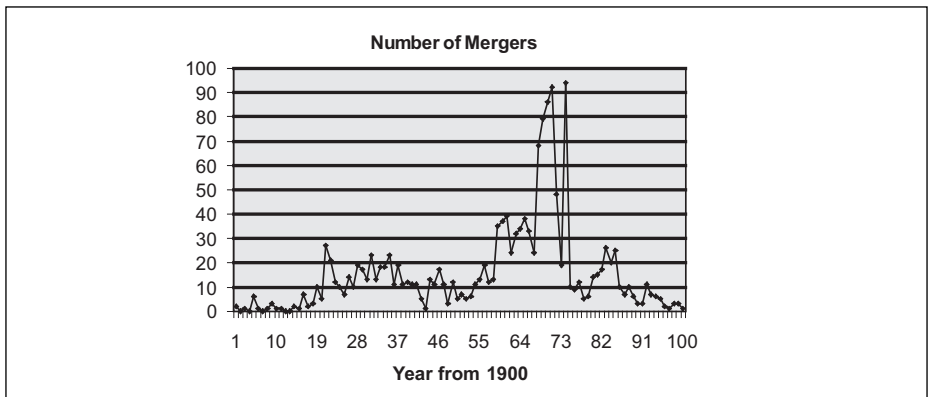
The consumer co-operative sector has seen a massive decline in its market share over the 20th century. It now has stabilised around 4% of the food market, but in 1955 this was about 20%, and around 8% in 1990.

The general pattern of mergers in the consumer co-operative sector has been

an increase over the 20th century with some large peaks during the 1960s, 1970s and 1980s (see graphs below). There has been a general decline in the number of societies from around 1,400 in 1905 to 45 currently. At the same time membership maintained an upward path until the major waves of mergers in the 1960s and 1970s, since when it has been in decline (however some of this data may not be totally reliable as databases on membership have not always been well maintained).

The deregulation of retailing through

### UK Mergers Data



the abolition of retail price maintenance in 1963/4 seems to have had a clear effect in a steady growth of mergers during the 1960s, and this was followed by a decade of intense price competition in the 1970s.

Preliminary analysis of the data shows that mergers of last resort were quite a small proportion of the total: 11.3%. However this is assessed by quantifying takeovers by CRS (the "ambulance service" of the movement) and there undoubtedly will be additional numbers to be added to this when the data are fully validated and analysed. Failures were surprisingly low at 6.2%. However, mergers of last resort represent a category of "almost failures".

Overall the picture is one of apparent reluctance to merge, and the two peaks (1970 and 1973) can only be explained by institutional factors internal to the movement.

### **Institutional Factors associated with Co-operative Mergers<sup>1</sup>**

A major factor that may push firms towards mergers is the attitude of influential bodies, such as the registrar of friendly societies in the social economy sector. There have been suggestions that the registrar is in favour or has been in favour of mergers in the past. In addition bodies such as the Co-operative Union have from time to time had committees that report on the size and structure of the sector and have advocated an increased level of mergers, particularly between smaller societies. In the last century the role of co-operative institutions is very interesting, particularly the increasing pace of activity

after 1958, and the move from campaign type of activity through report to plans. In particular it seems that the peaks of merger activity in the charts above can be clearly related to institutional interventions – see below.

### **Summary of Interventions by Co-operative Institutions**

1914 Amalgamation "campaign" begun by Co-operative Union as overlapping and competition between societies increases.

1919-20 "General Survey Report" points out the benefits of large societies from the economic standpoint as well as a remedy for overlapping.

1938 CU "Economic Survey Report" (J.A. Hough) determines areas where amalgamation "deemed necessary".

1958 Independent Commission Report sets a target of the ideal number of societies as 200 to 300 at a time when total was approaching 1,000. New initiative is called for from Co-operative Union. Minority report calls for a National Society.

1960 CU National Amalgamation Survey. Recommendations would reduce the number of societies from 875 to 307. "The large number of societies places the Movement under a severe handicap in competing with the multiples".

1965 Joint Reorganisation Committee. Concern about Movement's fragmentation – proposes central buying agencies.

1967 CU "Regional Plan for Co-operative Societies" aims to reduce number from 467 to 50 in England, Wales and Ireland. Scottish position left to Sectional Board and SCWS. Plan inspires

reduction of one third by April 1970.

1970 North Eastern Society formed with considerable sponsorship from CWS. Seen as a special case because of problems (e.g. decline of staple industries) in area. Over 30 societies come together.

1971 Regional plan for Scotland with 100 societies to be reduced to five.

1983–85 CU Merger Unit formed to give impetus to amalgamation programme.

1995/96 CU Strategic Review sees no support for single society and advocates strong regional societies.

## Conclusion

These preliminary findings on mergers in the UK consumer co-operative sector clearly show increasing pressures to merge. They indicate clear evidence of economies of scale/power and an

increasingly powerful private sector. However there seems to have been a distinct reluctance to merge spontaneously – thus there was a delayed response to the deregulation embodied in the abolition of retail price maintenance. Preliminary findings indicate that there were relatively few failures, but a more general failure to compete is evident (declining market share). And one of the key findings is the important institutional role of federal bodies in promoting mergers. Thus federal structures have important competitive features for a co-operative sector.

Increasing size has also resulted in declining membership levels (relatively), thus there are issues of a democratic deficit to be addressed (but Spear, 2004, shows that these are not irreversible trends). □

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## Note

- <sup>1</sup> Note that in building societies, the influence of registrars is clear – see the Wilson committee report on the functioning of financial institutions (1980, HMSO). The recommendations in relation to building societies included giving the registrar greater powers in promoting mergers in the case of particular societies facing difficulties (Chapter 24).

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# Can Co-operative Networks and Governance Structures Stay Competitive in a Growing Europe? The Mondragon Experience

by Iosu Lizarralde and Inazio Irizar Etxeberria\*



One of the main challenges facing co-operatives today is how to extend and/or retain their competitive advantage and maintain their relevance in a growing European Union with a globalised economy. To be effective and successful, a co-operative federation must consistently achieve two interrelated goals:

- a) strengthen the autonomy of its affiliates while maintaining social networks, enhance viability and improve the ability to service its members, and
- b) remain an economically viable,

innovative and competitive enterprise. To reach these objectives, social capital has gained considerable attention in recent years. Social capital – the unique features of a social organisation, such as networks, norms and trust, which facilitate co-ordination and co-operation for mutual benefit – fosters collective action and civic participation and helps to build dynamic communities.

Most theories of innovation remain heavily focussed on the individual company because, in capitalist economies, the company is the main

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repository of productive knowledge. What we have tried to do, however, is to suggest that this focus is narrow and restrictive. In other words, to develop a better understanding of innovation, we need to focus both on the individual company and also on the variety of relationships in which companies work and systems interact.

We maintain that within and between companies, social capital reduces organisational failure rates, facilitates innovation, entrepreneurship and the formation of start-up companies, and strengthens supplier relations, regional production networks and inter-company learning. In fact, high trust, learning capacity and networking competence are now widely perceived to be associated with relative economic and social success.

One of the co-operative groups where the potential of associative action is most apparent is the Mondragon Co-operative Corporation (MCC). MCC is the outcome of an industrial co-operative first created in 1956 by five young entrepreneurs in Mondragon, a small industrial valley located in north-eastern Spain. Today MCC has nearly 70,000 employees working in more than 120 different co-operatives, with 39 subsidiaries spread across the world (statistics at 31 March 2004).

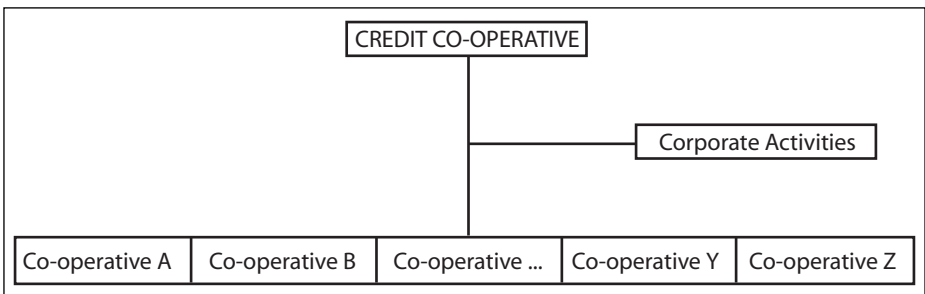
In a growing European Union, with new countries joining which already host some of the subsidiaries of MCC, the key questions are focussed on the future suitable organisational structures and networks that will be able to survive successfully in the new competitive scenario of globalisation, innovation and information technology.

## Evolution of the Structure of MCC

During Mondragon's period of co-operative growth, we can consider separate phases of development that occurred without incurring organisational instability.

From 1956 to 1964. Economic growth was important, there was a lack of products on the market, border tariffs strongly limited imports and all production that was sold achieved good profit margins. Almost all the new industrial companies succeeded and the success of the first co-operatives encouraged other entrepreneurs to start their own co-operatives, becoming individually linked through the credit co-operative Caja Laboral.

During this first stage, each of the two aspects of social capital that are analysed below had a very different development path:

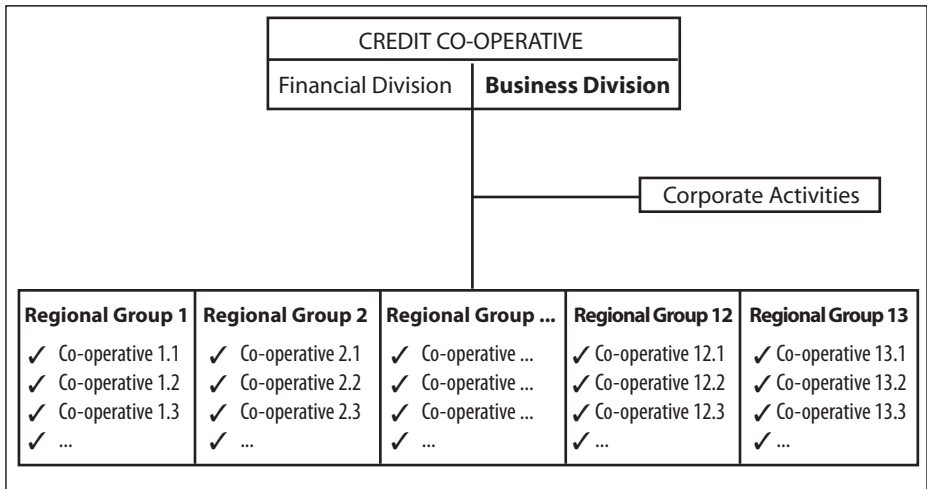


*Personal networks:* These were strong because most of the co-operatives' members lived closely together within the valley, sharing social objectives. Personal trust both in the co-operative leader, Father Don Jose Maria Arizmendi-arrieta, and in the young entrepreneurs who started the first co-operatives, was high and seeking new members or investment capital was not a difficult task.

*Institutionalised social interaction:* The only elements of the structure that were created related to training. In fact, these were the origin of the whole co-operative movement, since they were established before the industrial side began. During Franco's dictatorship, associa-

tions were banned by law and it was only through the support of the Catholic Church that the interaction between the different people involved in the project became possible.

**From 1964 to 1987.** With the aim of developing synergies, the first co-operative groups were created based on their regional location. Also the campuses of the School of Engineering and the School of Business were built. In 1966 Lagun Aro, the Welfare co-operative, was created and later Ikerlan, the research centre specialising in metal mechanics, as well as the Entrepreneurial Division within Caja Laboral. Therefore this evolution of the structure leads us to:



The initial differences between the two aspects of social capital changed:

*Personal networks:* Even though the networks' strength was maintained, many technicians and professionals living in other regions and valleys no longer had their homes in the towns where they worked but drove every day to the

Mondragon valley, a factor that divided social and professional life. Thus personal life was no longer shared in the street or in the leisure facilities and human closeness, as Father Arizmendi-arrieta remarked, strongly decreased. Finally, it is interesting to note that new start-ups in other provinces of Spain

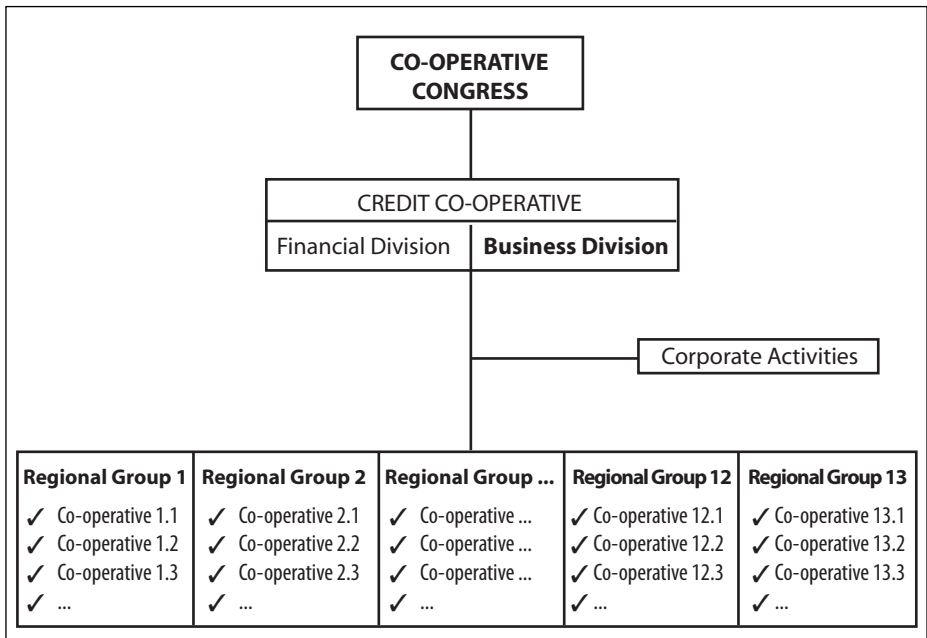
resulted in the co-operative membership outside the Basque Country rising to over 1,000 people.

*Institutionalised social interaction:* Corporate activities increased the interaction between professionals within co-operatives. We have take into account that all these businesses are mixed co-operatives, either primary or secondary, and that they are composed of both members (who can be workers) or other enterprises.

**From 1987 to 1992.** As Spain entered the European Union in 1986 and international competition grew, a new need arose: designing a new structure that would allow the businesses to move from valley groups to sectorial groups. In 1987 the first Co-operative Congress took place and this was the initial step

towards the constitution of Mon-dragon Corporacion Cooperativa (MCC) which was officially launched in 1992, resulting in the transformation of the Entrepreneurial Division of Caja Laboral into Central Services of MCC. Most of the professionals from the Fagor valley group also moved to these Central Services.

*Personal networks:* On the one hand, interaction between different members of the groups increased and it was during this time that the first sense of being part of a common co-operative project occurred. On the other hand, some people became afraid of losing their sense of belonging to the valley organisations. These organisations shared similar cultures and had closer links than the new sectorial co-operatives, which were



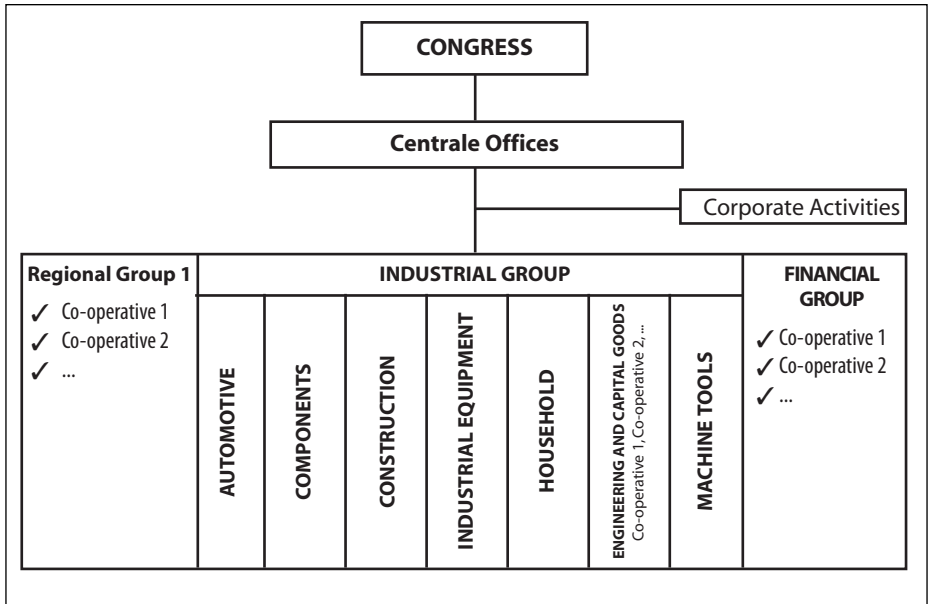
geographically far removed and lacked solidarity. As the borders in Europe were removed for imports and exports, the mentality of co-operatives members changed to a more internationalised perspective.

*Institutionalised social interaction:* Participation in the sectorial clusters of the Basque Country became stronger and the second research centre was created, Ideko, specialising in machine tools.

**From 1992 to 2004.** The new structure was strengthened and gradually the functions of the different agents such as the Congress, Central Services, Groups (Financial, Industrial and Distribution), Divisions (Automotive, Components, Construction, Industrial Equipment, Household, Engineering and Capital

Goods and Machine Tools) and others became firmly established. The Presidency and Vice Presidency of MCC were created as well as the Directors of Groups. The Central Services set up five directors supporting the divisions, with a total staff of 70 professionals.

It was during this stage that the globalised economy became a reality, compelling the businesses to relocate some of their production to other continents (France, Germany, Italy, Poland, Great Britain, Czech Republic, Turkey, Romania, Brazil, Mexico, China, India, Thailand and Morocco). Those joint ventures were always created by the individual co-operatives, with MCC merely handling some of the financial or relational support functions.



*Personal networks:* There has been a process of adaptation and a change from relating with people of the same regional culture to relating with other co-operative members in more distant regions. The establishment of MCC in 1992 hastened the level of integration in the Regional Valley Groups. For example, the eight co-operatives in the Fagor Group – in which members had a 100% rate of sharing profits and losses and shared the same legal rights – changed into seven industrial divisions and groups, with the rates of sharing profits and losses varying between 25% to 100%. The levels of integration have been increasing but still, in 2004, there are differences that generate varying perceptions of the co-operative approach.

On the other hand, participating in joint ventures with non-co-operative enterprises has created a diversity in personal relations, both at the national and international levels. The levels of democracy, participation and solidarity of non-member employees is different in each case, though generally closer to a non-co-operative business than to one that is a co-operative.

*Institutionalised social interaction:* In 1997 the University of Mondragon was established along with three other new research centres, and the Innovation Technology Centre Garaia was formed in 2001. In all these cases the model of a mixed co-operative enterprise has been maintained, with the participation of co-operative businesses in the assemblies and general boards. It is also interesting to note that the University and the research centres are mixed co-operatives, both private and not-for-profit

organisations, which are open to all members of society without distinction.

## **Promoting External Support Bodies**

The strong and durable innovative attitude of the co-operatives in MCC has meant that their initiatives have not only been internal but have also extended to the region or state. As a result, since 1983 MCC has participated in establishing and strengthening the sectorial clusters in the Basque Country. At present there are 11 clusters that join more than 300 enterprises.

Also remarkable is the important role played by the co-operatives of MCC in all aspects of research, development and innovation at a regional level, with participation in the Association of Centres of the Basque Country (EITE), involvement in three Regional Technology Parks and the creation of the previously mentioned Garaia innovation centre.

## **Social Capital in Future Networks and Strategies**

Much recent work in economic geography and regional studies has focussed on the importance of strong economic and social networking in the success of regional and local economies. Concepts such as industrial districts, innovative milieus, clusters and learning regions have assumed great significance in much of this research.

From the regional development point of view, social capital can be seen as the collective capacity of key socio-economic players in the region to form and

use effectively networks or other forms of co-operation on the basis of a shared value system, with norms and institutions based on trust and reciprocity that establish and accelerate the process of regional learning. In the field of innovation policy within a region, this means creating an efficient system that facilitates the generation, diffusion and economic exploitation of knowledge in the form of new or improved economic activities – products, processes and services.

As social capital is an important component of regional innovation systems, the objective of MCC should be to promote the creation or strengthening of innovation systems in order to increase regional competitiveness.

Considering the importance of social capital for regional competitiveness, and the difficulties that arise when this is too weak, finding ways to foster social capital at the regional level has become a priority for MCC. In recent policy initiatives, regional co-operation (inter-company and private-public) has been seen as a fundamental key to the international competitiveness of the regional economy, largely due to the systemic way in which the innovation process takes place: co-operate locally in order to innovate in order to compete globally. How can we improve this social capital, which allows knowledge and innovation to flow and thus contributes to an efficient regional innovation system, boosting economic development?

Practically all definitions mention networks as a means of building social capital. MCC has to try to provide a

framework for direct involvement, collaboration and common action among private and public regional players, in order to exploit synergies and liberate latent energies and creativity, which are at the roots of economic renewal through which new business opportunities are identified.

To contribute to these issues, we suggest improving regional public-private partnerships. The participation of private sector representatives in the decision-making process should be stimulated. This can be done through the creation of regional innovation forums and working groups with representatives from both private and public sectors. The link between co-operatives and the regional “knowledge base” should be a key priority. This link can be established by developing networks between universities, technology centres and co-operatives.

In this regard, the Innovation Centre Garaia should provide an excellent framework for co-operation between Mondragon University and the short- and long-term research needs of businesses, enabling the transfer of knowledge and the development of stronger relationships between the University, the research centres and the business R&D departments. All this will improve regional development while enabling co-operative firms to thrive within an innovative and learning environment, which will in turn strengthen their position in international markets.

Therefore, it will be essential to create a solid and competitive network based mainly on knowledge in order to produce innovation.

## Future Challenges

1. The future organisational structure will tend to reduce the number of Groups within the Industrial Divisions in order to gain a **less hierarchical structure**, with a minimum number of layers between the individual co-operatives and the central offices of MCC.
2. The **sectorial corporate structure** should provide individual co-operatives with most of the synergies of a typical corporation, an essential issue when competing in a global market.
3. The **progressive relocation of production** will result in a.) co-operatives recruiting staff on the same basis and in competition with other international companies, and b.) international synergies found in clusters and bodies promoting new institutional relationships.
4. The **co-operatives will have to grow in size** in order to reach the scale demanded not only by their managers but also by the nature of the markets in which they operate.
5. Collaboration agreements are a way of joining forces to achieve common objectives. Co-operative values should not prevent co-operatives from **working with other companies**, but rather act as a stimulus in the development of areas of common interest.
6. Furthermore, those bodies specifically involved in the field of research and development – in particular technology centres, consultants, engineering agencies and the University – should not be working alone but join forces to form a Knowledge Group, with the aim of acting as a permanent source of innovation within the Corporation.
7. The concentration of another 20 business-related technological centres in the same area as the Mondragon University, Ikerlan and a number of engineering and consultancy services will create an **intellectual cluster** that will contribute not only to the development of the individual co-operatives, but also to the improvement of the local social environment. □

# Fulfilment of the First Principle: An Analysis of Gender Discrimination in Spanish Co-operatives

by Rafael Chaves Ávila, María Antonia Ribas Bonet and Antonia Sajardo Moreno\*



In developed countries, differences can be observed between the male and female labour market and different kinds of labour inequalities can be

seen. Horizontal occupational segregation reflects the division of labour between the sexes, with certain sectors or activities being regarded as typically male and others being considered female. At the same time, a low proportion of women can be seen in top-level managerial positions and posts of responsibility. A phenomenon known as vertical occupational segregation, economic literature refers to a “glass ceiling” for women. Earnings discrimination is common, i.e. different wages are paid to men and women doing the same job or carrying out work of a comparable nature. Additionally, differences can be observed in the way that men and women are hired, women being more prone to receiving

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temporary or part-time contracts than men. Economic literature has hardly studied this labour phenomenon (see a survey in Ribas Bonet, 2004) and there have been few theoretical and empirical studies.

Because of their identity – highlighted by the co-operative principles – and their socio-economic functions, i.e. to resolve social needs and economic problems, co-operatives should be a correcting factor in the field of labour inequalities. In this context, co-operative literature has identified important gender imbalances in co-operatives, but again there is a lack of empirical data. The aim of this article is to analyse the subject by focusing on Spain and by using empirical data.

### **‘Non-Sexual Discrimination’ in the Context of Co-operative Principles**

Among the seven co-operative principles defined by the International Co-operative Alliance, the most interesting from the perspective of the issue at hand is the first, since it refers explicitly to non-discrimination: “Co-operatives are voluntary organisations, open to all people able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.”

The inclusion of the “non-gender discrimination” requirement in the first principle is a relatively recent achievement, as it was introduced when the co-operative principles were reviewed

at the Manchester Congress in 1995. The issue had already been raised by the Women’s Committee, notably at the Tokyo Congress, where the inclusion of equal male and female representation in the management of co-operatives was requested in the second principle. However, this last proposal was not admitted in the revised version of the co-operative principles in 1995 in Manchester (Gómez, 1998: 42). Low female representation in co-operatives highlights the existence of a huge contradiction or lack of coherence, since co-operatives are based on specific working rules such as democracy, openness and equality, with underlying values that include solidarity and an interest in people and the community.

According to Apelqvist (1996), gender imbalance in co-operatives is one of the most striking contradictions between co-operative theory and practice<sup>1</sup>, weakening co-operative identity, credibility and the possibilities of the fulfilment of co-operative purposes. As they stand now, co-operatives are conceived by men for men and they are based on masculine values, rules and priorities<sup>2</sup>.

### **Female Involvement in Co- operatives and Worker-owned Companies**

The following table contains information on the distribution of workers by sex and by the following types of company: co-operatives, employee-owned public limited companies or

**Table 1: Percentage of workers engaged in the Social Economy by sex and type of company on 31 December 2003**

| Sex     | Total | Co-operatives | Employee-Owned Public Limited Co. | Employee-Owned Limited Liability Co. |
|---------|-------|---------------|-----------------------------------|--------------------------------------|
| % Men   | 61.1  | 57.2          | 76.9                              | 70.1                                 |
| % Women | 38.9  | 42.8          | 23.1                              | 29.9                                 |
| Total   | 100.0 | 100.0         | 100.0                             | 100.0                                |

Source: Spanish Ministry of Labour and Social Affairs. Directorate-General for the Promotion of the Social Economy and the European Social Fund (2003).

**Table 2: Percentage of workers engaged in the Social Economy by sex and the size of the company on 31 December 2003 (excluding self-employed workers)**

| Size               | % Men | % Women | Total |
|--------------------|-------|---------|-------|
| From 0 to 5 people | 66.7  | 33.3    | 100.0 |
| From 6 to 10       | 71.4  | 28.6    | 100.0 |
| From 11 to 25      | 68.3  | 31.7    | 100.0 |
| From 26 to 50      | 62.5  | 37.5    | 100.0 |
| From 51 to 100     | 57.9  | 42.1    | 100.0 |
| From 101 to 250    | 50.9  | 49.1    | 100.0 |
| More than 250      | 48.9  | 51.1    | 100.0 |
| Total              | 60.4  | 39.6    | 100.0 |

Source: Spanish Ministry of Labour and Social Affairs. Directorate-General for the Promotion of the Social Economy and the European Social Fund (2003).

**Table 3: Percentage of workers engaged in the Social Economy by sex and age on 31 December 2003**

| Age                 | % Men | % Women | Total |
|---------------------|-------|---------|-------|
| Under 25 years      | 60.3  | 39.7    | 100.0 |
| From 25 to 39 years | 58.4  | 41.6    | 100.0 |
| From 40 to 54 years | 62.6  | 37.4    | 100.0 |
| 55 years or more    | 71.6  | 28.4    | 100.0 |
| Total               | 61.1  | 38.9    | 100.0 |

Source: Spanish Ministry of Labour and Social Affairs. Directorate-General for the Promotion of the Social Economy and the European Social Fund (2003).

employee-owned limited liability companies.

The data in Table 1 show that Spanish co-operatives and worker-owned companies have a high percentage of men (over 61%), although female representation varies considerably according to the type of company. There is a significant difference between female representation in co-operatives and their representation in worker-owned companies. While women account for almost 43% of the workforce in co-operatives, in employee-owned public limited and limited liability companies the corresponding figure is considerably lower: 23.1% and 29.9% respectively. Therefore male and female labour representation is more balanced in co-operatives.

The percentages presented below, showing male and female representation in Spanish co-operatives and worker-owned companies, are taken from census data. They show the joint figures for both types of companies.

In each size band, a predominance of male workers can be observed, although female representation rises as the size of the company increases, reaching an almost balanced proportion of men and women in larger companies (with 101 workers or more).

The proportion of men and women varies according to their age group, with a higher percentage of women among the younger workers, particularly in the 25 to 39 year old age group where women represent 41.6% of the total workforce.

The distribution of male and female workers varies according to the business sector in question. In the service

sector, the proportion of men and women is practically equal, while the remaining sectors have a big majority of male workers, with men representing 94% of the workforce in the construction industry, almost 73% in industry and more than 57% in agriculture.

If one observes the workers' gender distribution for different fields of activity (Table 5), it can be confirmed that most fields have a greater proportion of male workers, particularly activities like the mining industry, the production and distribution of electricity, gas and water, construction, and transport, storage and communications. Women are well represented only in service activities like education, health and veterinary activities and social and personal services.

These differences in male and female involvement in different sectors and fields of activity reveal the existence of horizontal occupational segregation in Spanish co-operatives and worker-owned companies. Nearly 63% of all permanent workers are men. Meanwhile 57% of all temporary workers are men and 43% are women. This shows that women are more strongly affected than men by temporary employment contracts.

71.7% of all male workers employed by Spanish co-operatives and worker-owned companies are hired on a permanent basis, whereas only 66.3% of their female counterparts benefit from this employment status (Spanish Ministry of Labour and Social Affairs, 2003).

The figures in Table 7 show that a higher percentage of women work on

**Table 4: Percentage of workers engaged in the Social Economy by sex and business sectors on 31 December 2003**

| Sectors      | % Men | % Women | Total |
|--------------|-------|---------|-------|
| Agriculture  | 57.3  | 42.7    | 100.0 |
| Industry     | 72.8  | 27.2    | 100.0 |
| Construction | 94.0  | 6.0     | 100.0 |
| Services     | 49.2  | 50.8    | 100.0 |
| Total        | 61.1  | 38.9    | 100.0 |

Source: Spanish Ministry of Labour and Social Affairs. Directorate-General for the Promotion of the Social Economy and the European Social Fund (2003).

**Table 5: Percentage of workers engaged in the Social Economy by sex and different fields of activity on 31 December 2003**

| Field of activity   | % Men | % Women | Total |
|---|-------|---------|-------|
| Agriculture, livestock, hunting, forestry and fishing         | 57.0  | 43.0    | 100.0 |
| Mining industries   | 94.9  | 5.1     | 100.0 |
| Manufacturing industries                                      | 72.7  | 27.3    | 100.0 |
| The production and distribution of electricity, gas and water | 86.4  | 13.6    | 100.0 |
| Construction  | 94.0  | 6.0     | 100.0 |
| Trade and the hotel business                                  | 51.4  | 48.6    | 100.0 |
| Transport, storage and communications                         | 83.5  | 16.5    | 100.0 |
| Finance   | 65.2  | 34.8    | 100.0 |
| Real estate, rental activities and managerial services        | 46.6  | 53.4    | 100.0 |
| Education, health, veterinary and social activities           | 31.8  | 68.2    | 100.0 |
| Total   | 61.1  | 38.9    | 100.0 |

Source: Spanish Ministry of Labour and Social Affairs. Directorate-General for the Promotion of the Social Economy and the European Social Fund (2003).

**Table 6: Percentage of workers engaged in the Social Economy by sex and their employment situation on 31 December 2003**

| Employment situation | % Men | % Women | Total |
|----------------------|-------|---------|-------|
| Permanent worker     | 62.9  | 37.1    | 100.0 |
| Temporary worker     | 57.0  | 43.0    | 100.0 |
| Total                | 61.1  | 38.9    | 100.0 |

Source: Spanish Ministry of Labour and Social Affairs. Directorate-General for the Promotion of the Social Economy and the European Social Fund (2003).

a part-time basis than men: only 6.3% of men have part-time contracts in comparison with 17.8% of women. The data presented here show that men have better labour conditions than women. A greater percentage of men are in stable, full-time employment than women. In contrast, more women are hired as temporary or part-time workers.

Table 8 shows the distribution of the workforce in co-operatives and worker-owned companies by sex and labour category. Women are more strongly represented in the “administrative assistants” category, where they account for 68.1% of all workers. In the “technical engineers, expert specialists and assistants” category, 58.7% of the workers are women, and in the “junior staff” group they account for 52% of the total (with relatively balanced percentages of men and women). In the remaining employment categories, most of the workers are men. They represent a clear majority in the “first and second-class skilled workers”, “managerial workers”, “graduate engineers” and “unqualified assistants” categories, and they also account for 77.5% of all workers under the age of 18.

## Female Labour Representation in Workers’ Co-operatives

Based on data produced by the Spanish Confederation of Workers’ Co-operatives (COCETA: *Confederación Española de Cooperativas de Trabajo Asociado*), a specific analysis is made of co-operatives and, more particularly, Spanish workers’ co-operatives.

According to the available data, in Spain it can be seen that women are more highly represented as co-operative employees than as associate workers, only accounting for 42% of all partners<sup>3</sup>. It can also be observed that women are hired on a more precarious employment basis: 61% of all temporary employees are women and they only account for 31% of all permanent employees. Moreover, women also account for approximately 65% of all part-time co-operative workers (Delso, 2001: 6).

An analysis by sectors reveals that there is a higher female presence in service co-operatives, where they represent 62% of the labour force (37% of all partners as opposed to 59% of all employees). This contrasts with the industrial sector, where women account only for 36% of the total (67%

**Table 7: Percentage of workers engaged in the Social Economy by sex and type of working week on 31 December 2003**

| Type of working week | % Men | % Women | Total |
|----------------------|-------|---------|-------|
| Full time            | 93.7  | 82.2    | 89.2  |
| Part time            | 6.3   | 17.8    | 10.8  |
| Total                | 100.0 | 100.0   | 100.0 |

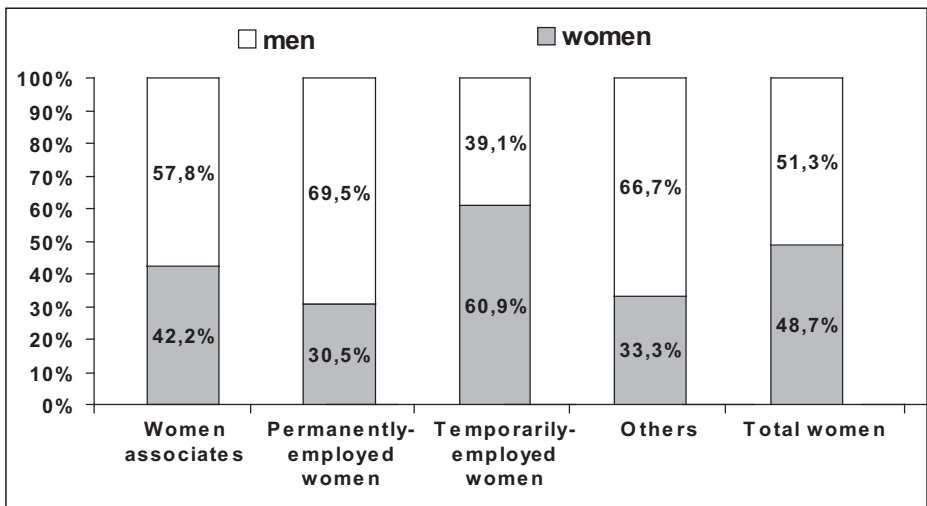
Source: Spanish Ministry of Labour and Social Affairs. Directorate-General for the Promotion of the Social Economy and the European Social Fund (2003).

**Table 8: Percentage of workers engaged in the Social Economy by sex and social security categories on 31 December 2003 (excluding self-employed workers)**

| Social security category                               | % Men | % Women | Total |
|--|-------|---------|-------|
| Graduate engineers                                     | 64.3  | 35.7    | 100.0 |
| Technical engineers, expert specialists and assistants | 41.3  | 58.7    | 100.0 |
| Managerial workers                                     | 77.7  | 22.3    | 100.0 |
| Unqualified assistant staff                            | 64.0  | 36.0    | 100.0 |
| Skilled administrative staff                           | 57.7  | 42.3    | 100.0 |
| Junior staff   | 48.0  | 52.0    | 100.0 |
| Administrative assistants                              | 31.9  | 68.1    | 100.0 |
| First and second-class skilled workers                 | 87.3  | 12.7    | 100.0 |
| Third-class skilled workers and specialists            | 61.6  | 38.4    | 100.0 |
| Unqualified workers over the age of 18                 | 53.5  | 46.5    | 100.0 |
| Workers under the age of 18                            | 77.5  | 22.5    | 100.0 |
| Others   | 50.0  | 50.0    | 100.0 |
| Total  | 60.4  | 39.6    | 100.0 |

Source: Spanish Ministry of Labour and Social Affairs. Directorate-General for the Promotion of the Social Economy and the European Social Fund (2003).

**The percentage of women in each co-operative employment category**



of all partners and 28% of all employees). However, the distribution by sub-sectors is far from balanced, since women abound in the textile and clothing sectors but are scarcely present in co-operatives from the metallurgical or furniture industries. Women are also only marginally present in the construction and non-traditional agricultural industries (2%) (COCETA; Delso, 2001: 6; COCETA Women's Department, 1998: 5).

Nevertheless, because women are more strongly present in one particular sector, this does not imply access to more stable employment and to positions of greater responsibility. This is reflected by the data on partners in the service and industrial sectors, where a respective 37% and 67% of their associates are women. These figures, however, are not comparable to the female workforce of the two sectors, where women account for 62% of all service sector employees and 36% of industrial employees. In the industrial sector, women represent a third of the labour force in terms of its working partners (38%) and temporary workers (36%), indicating that gender does not affect access to a partnership. In the service sector, nonetheless, 49% of all partners are women, but they represent 76% of all temporary workers. That is to say, in this case women have difficulty in becoming a partner (COCETA). "49% of the total workforce (associates and hired workers) of workers' co-operatives are female. The average number of women holding managerial positions is higher in co-operatives than in other types of businesses, with a current percentage of 36%. In spite of the high percentage of female partners

and workers, there is no comparable female presence in their governing bodies" (COCETA). This reveals the existence of a certain degree of vertical occupational segregation. That is to say, men are more strongly present in higher positions of authority, whilst a greater proportion of women can be found in lower employment categories.

### **Initiatives by the Co-operative Movement to Promote Gender Equality**

We should point out that Spanish co-operative organisations are not unaware of the labour situation that women face. In recent years these organisations have paid attention to the specific problems experienced by women in co-operatives and, in consequence, there has been a growth in initiatives aimed at promoting equality between the sexes.

Co-operative organisations are trying to promote gender equality among their staff and co-operative federations have created specific women's departments. Maybe the most important is the Women's Department of COCETA (the Spanish Confederation of Workers' Co-operatives) created in March 1997 with the purpose of designing policies that are mainly directed at women. The Aragonese Federation of Workers' Co-operatives (FACTA: *Federación Aragonesa de Cooperativas de Trabajo Asociado*) imitated COCETA's national initiative and CECOP's European initiative by creating its own Women's Department.

In Madrid, a group of women co-oper-

ators decided to form an association to promote female participation within the co-operative movement. That is how the Association of Co-operative Women Entrepreneurs (AMECOOP: *Asociación de Mujeres Empresarias de Cooperativas*) came into being, in response to “the low level of female representation in co-operatives’ managerial bodies and the lack of political and representative participation in the co-operative movement” (Martin, 1998).

In December 1998, following a proposal by AMECOOP, COCETA’s Women’s Department founded a publication called *Cuadernos Mujer y Cooperativismo*, with a “view to creating new opportunities for communication, exchanges and discussion that are clearly focused on direct strategic intervention to promote gender equality within the co-operative movement, in particular, and in employment in general”.

In collaboration with the University of Valencia (the public body in charge of the project) and the Government of Valencia’s Department of Employment (as co-sponsor), the Valencia Federation of Workers’ Co-operative Enterprises (FEVECTA: *Federación Valenciana de Empresas Cooperativas de Trabajo Asociado*) has set in motion an initiative called the Carme Project, within the framework of the NOW (New Opportunities for Women) European Union initiative. The main objective of the project is to offer support and facilitate female access to managerial positions in co-operative enterprises based in the Spanish region of Valencia (Belenguer et al, 2004). At

present FEVECTA is taking part in projects within the framework of the EQUAL EC initiative, some of which concern equal opportunities (Tara-zona, 2003).

## **Co-operative Enterprises Created and Managed by Women**

In recent years, many co-operatives created and managed by women have appeared in Spain. These initiatives have been developed in different fields of activity: clothing, social services, education, leisure activities etc. Nevertheless, not all co-operatives with female representatives or women members of management specialise in work that is considered typical of women. Some of these recent enterprises involve activities that are usually carried out by men, such as archaeology or woodwork.

From such experiences in Spain, it seems that co-operatives are ideal instruments for women to develop managerial and professional skills. At the same time, co-operatives also offer a solution to female unemployment or job instability by integrating women into the labour market. In most cases, it is the women’s precarious labour situation that motivates the creation of a co-operative as a solution to their problem, by generating a decent, stable job.

## **Conclusions**

The problem of discrimination against women in co-operatives is an important issue for two main reasons.



Firstly, the co-operative principles that form the basis of all co-operative enterprises call for the elimination of discrimination among people, including sex discrimination. Secondly, if women are not fully integrated into the co-operative movement, their potential, capacities and aptitudes will be wasted and this will have a detrimental effect on running and developing co-operatives at full capacity.

When an analysis was made of the labour situation of workers in Spanish co-operatives and worker-owned companies, inequalities between men and women were observed. Women are less strongly represented than men, although this varies according to the age of the workers or the company's type and size. The existence of occupational segregation was also detected, since the workers' distribution by sex varies according to the sector and field of activity in which they are engaged. Differences in the way men and women are hired can also be observed, because women are more affected by temporary contracts, as well as tending to work part-time more than men. An analysis of the female labour situa-

tion in Spanish workers' co-operatives again reveals stronger male representation and greater difficulty by women in joining a company as a partner or in occupying managerial positions and jobs of responsibility.

Observed attitudes and initiatives within the co-operative movement show that some co-operatives have a high awareness of the problem of female labour inequality, that they are committed to overcoming this problem, and that they try to follow the co-operative principles on which they are based (including non-sexual discrimination). Co-operative enterprises that abide by these co-operative principles are businesses whose functions go beyond the boundaries of finance. They also have a social role, which entails an active involvement in the problems and situations of the co-operative's business partners and those of the community. By trying to promote women's social integration and their incorporation into the labour market, including management, those organisations from the co-operative movement that do so are behaving in consonance with the spirit of co-operation. □

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## Notes

<sup>1</sup> This paradox is also commented on by Itkonen (1995: 72).

<sup>2</sup> The necessities and the way of life of women have been ignored, under the supposition that by taking into account men's needs, women and children automatically benefit from this. In some countries, this leads to the introduction of legislation that is detrimental to women. In co-operatives, women do not have the same opportunities for acquiring basic skills and higher training in finance, technology and management. High value is attributed to 'male' aptitudes and experiences and little to 'female' aptitudes and experiences (Apelqvist, 1996: 42).

<sup>3</sup> According to data compiled by the National Institute of Statistics (INE: Instituto Nacional de Estadística), in the second quarter of 2003, 32.69% of all co-operative

members were women and 67.31% were men. 74.39% of all agricultural co-operative members were men, while only 25.61% were women. In the case of non-agricultural co-operatives, the gender difference was less acute, although there was still a clear male majority, with men representing 66.08% and women 33.92%. Within this last type of co-operative, sectoral differences can also be observed, with women representing 29.81% of all industrial co-operative members, 7.22% of all members from the construction industry and 45.08% of all members in the service sector.

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# Micro Initiatives: An Effective Member Relationship Management Strategy in Indian Co-operatives

By Sudha K\*

The co-operative movement in India has expanded rapidly, both in terms of the number of co-operatives and their membership. However, member service and development are not given due emphasis and are often neglected. Apathy, non-participation of members and corrupt practices by leaders are the main problems. Many co-operatives imitate the competition and are preoccupied with commercial success to the total exclusion of serving members' real needs. People perceive co-operatives as state-controlled, economically inefficient and socially defunct organisations and have disbelief in the role of co-operatives as a means for their own development. In view of this situation, increasing the participatory initiatives for the members and providing *total member* experience is the only recourse for upholding member centrality in a people-led institution and a panacea for all the ills of co-operatives. This inevitable challenge has made co-operatives evolve the paradigm of micro initiatives to bridge the credibility divide.



## Emerging Business Context

Globalisation has brought sweeping changes in its wake, such as emerging breakthrough technologies, expansion of the market horizon, intense competition reaching global proportions and strategic alliances. Competitors to co-operatives, particularly in the private sector, are now adopting the co-operative culture – such as value-based management, solidarity, social responsibility and a customer friendly business approach – to conquer the market.

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They have been very successful in increasing their market share and have now realised that winning customers in the long run is the key to their business success.

Co-operatives have demonstrated that they are different from the other economic players right from their inception, but providing better service to the owner-members will not itself guarantee success today. Co-operatives are member-led business organisations and flourish on member-centric relationships. So the concept of *member relationship management* (MRM) is not new to co-operatives but has been relegated to the backseat. The restoration of MRM is imperative in the current market context. This enables co-operatives to provide qualitative total member satisfaction that fosters the relationship with the member-customers. The over-emphasis given to economies of scale, structures, processes and customer oriented marketing rather than member orientation borrowed from conventional businesses helped them to gain on the enterprise side but failed to address the needs on the association side, especially in consumer co-operatives. The culture of co-operatives also stagnated as they neglected education and efforts to attract young people, reducing the significance of co-operatives in the market place. As Craig (1995) says, "If co-ops neglect their associational needs, the consuming public can no longer distinguish a co-op from any other business".

## **Member Relationship Management: Its Significance**

Member relationship management is creating a culture in the organisation where members are valued and they trust their organisation. It is a co-operative business model whereby member-customers are treated as "members". It is winning the members' patronage through the member-focussed management approach. It is not just keeping the database of the member-customers through installing software but it has everything to do with attitude. Thus creating a culture of member-customers' trust and earning their lifetime loyalty is the single most important aspect of member relationship management. (Peppers, 2004).

Every member, being unique with varied needs, is a revenue-producing asset and drives the co-operative's economic growth. Co-operatives need to interact with their members regularly, helping them to devise need fulfilment initiatives and a one-to-one marketing approach. MRM helps to enhance members' sense of identification with the firm and increases the response rate or referrals to other customers, leading to the maximisation of return on capital. It helps them to achieve success by combining business viability with social orientation. However, adoption of MRM culture is not an overnight process but a gradual process achieved through member friendly micro initiatives.

## **Micro Initiatives as an Effective MRM Strategy**

Members as customers are increasingly becoming scarcer than capital. Members are hard to get and it is difficult to make them loyal. Hence co-operatives should ensure that they get as much value as they can from every single customer-member. Initiatives at the unit level need to be emphasised centre stage in the agenda and strategies should be devised to meet them promptly. Only then can co-operatives maximise the return on each member and become member central.

Micro initiatives, as an MRM strategy, earn a return from members in terms of both short-term profit and long-term value: short-term profit as represented by the immediate profit earned when members purchase the product or service and the long-term value in terms of loyalty of the members (Peppers, 2004).

## **Need Fulfilment Activities - An MRM Technique**

Need fulfilment activities are those that respond to the varying and changing needs of the members, going beyond the basic commercial or conventional business activities. They may also include human resource development initiatives such as training and education, if the members feel that these are essential for their development. Radical changes in people's lifestyle, influenced by the changing socio-economic conditions and the market situation, have compelled co-operatives to place a high premium on need fulfilment activities, making them relevant both to present

and prospective members. For example, agricultural credit co-operatives can diversify their business operations into non-agricultural or consumer activities, according to the wishes of their members. Hence co-operatives in the future will have to break free of their functional compartmentalisation (like consumer co-ops, credit co-ops etc.) and become community co-operatives, supplying all types of requirements to their community of members.

## **Methodology Used**

Focusing on the need for a new paradigm (need fulfilment initiatives at the micro level) as an effective MRM tool for winning and retaining members, this paper attempts to evaluate the need fulfilment efforts currently in vogue in Indian co-operatives.

The study is exploratory in nature and is based on the empirical survey conducted for the purpose as a part of doctoral research. The data relating to varied activities practised in the sample institutions cover a period of five years from 1996-97 to 2000-01. Methods in the data collection are primary, secondary and field observation while the methods of data analysis are descriptive and statistical inferences: scaling technique, percentages, averages, chi-square, correlation and non-parametric statistics.

The study is confined to primary co-operatives working in eight sectors in five different states in India. The eight sectors are agriculture credit, producer/worker, marketing, dairy, banking/thrift, service, consumer and fisheries. The five states are Karnataka, Kerala, Goa, Andhra Pradesh and

Maharashtra. For the purpose of this study, multi-stage stratified random sampling is used for the selection of area, sectors and units. One office bearer, two members of the managing committee and five ordinary members are selected at random from each sample society, taking into consideration the fair representation in terms of gender, literacy, age, occupation and location. In total, 37 office bearers, 74 committee members, 185 members from 37 units were selected for interview.

### **Profile of the Need Fulfilment Activities Initiated at the Surveyed Co-operatives**

The study reveals few activities initiated in primary societies in general and hence displays a gloomy picture. However, some of the progressive societies surveyed have initiated many need fulfilment activities in terms of diversification of services, member social activities, training/educational activities, interaction/information initiatives besides their conventional trade activities. In terms of sectors, the units in dairy, primary agriculture credit, producer/workers, and consumer sectors have performed satisfactorily to varying degrees. In terms of regions, the societies in the states of Maharashtra, Andhra Pradesh and Karnataka were found more responsive. The highlights of the need fulfilment activities as MRM techniques initiated by these societies are shown below:

In 60% of the units in the agriculture credit sector (Mulukanoor Co-operative Rural Bank and Marketing Society Ltd in Andhra Pradesh, Tattisar Group

Seva Sahakari Sangha Ltd and Hulgol Service Co-operative Society Ltd in Karnataka State) "pioneering is associated with creativity and innovation". The managements of these units have changed their traditional pattern of business to multi-purpose societies, catering to the diverse needs of the members. In addition to generating stronger interpersonal relationships, they have created opportunities for both members' and community participation. A budgetary provision was made to meet different contingencies like member welfare, death, charity, culture, education, rural development and environment conservation under the theme "cradle to the grave". The members were provided with good exposure to modern and scientific methods of cultivation through workshops, exhibitions and demonstrations. In the consumer sector, a few co-operatives in the state of Maharashtra (Grahak Peth, Pune and Warana Bazar, Kolhapur) have established good member contact measures. It was noted that they have been sending greetings and invitations to the members during festival seasons and annual discount offers. A wide choice of quality products at fair prices, combined with member motivational strategies, has been instrumental in their progress, which has been quite exceptional compared with the majority of consumer co-operatives in India. They not only implant good awareness among members but also fight for consumer rights and redress their grievances through newsletters, bulletins and networking activities.

A third of the primary co-operatives in the producer/workers sector (Warana

Sugar Co-operative Industry in Warananagar, Kolhapur and Dinesh Beedies in Kasaragod) have been successful in enlisting the support and loyalty of members through pro-member policies, despite their facing severe challenges in terms of de-control measures and a ban on the public consumption of beedies (a type of cigarette) respectively. Management executives in half of the surveyed milk producer co-operative societies (Handattu and Karkada in Karnataka) have been catalysts in the rural transformation in their area. Besides the dairy expansion, they have arranged informal meetings, sports and cultural activities and have also formed self-help groups of members to assist them economically.

In the marketing sector, Shetkari Sahakari Sangh Ltd, Kolhapur, undertakes many activities ranging from the marketing of agricultural produce and processing to manufacturing, distribution and a large variety of consumer services, all on a very large scale, covering twenty different areas, thereby fulfilling the diverse needs of the members.

A co-operative bank run solely by women in the State of Maharashtra (Bhagini Nivedita Sahakari Bank) has been the pioneer in conducting entrepreneurship development activities and empowerment measures for its women members.

The concept of integrated rural social welfare practised by some societies (Mulukanoor Co-operative Rural Bank and Marketing Society Ltd and Warana Sugar Co-operative Industry) is clearly manifested in their extensive need-based measures. Situated in a drought

prone area, the Mulukanoor co-operative provides drinking water free of cost, irrigation and the electrification of its whole area of operation. Warana Sugar Co-operative Industry has built a co-operative complex with schools, colleges, hospitals, gymnasium, children's orchestra, village library, dairy, bank, supermarket and community centre. Its commitment to education has helped the masses to make progress and has brought social transformation in the villages. On the information front, it has set up the Warana Wired Village Project under which the farmer members of 82 villages are provided with easy access to relevant information through computer networking points. It is a benchmark in communication and the first of its kind in Asia in the co-operative sector.

The Andhra Pradesh State Road Transport Co-operative Employees' Thrift and Credit Co-operative in Andhra Pradesh has evolved many welfare schemes for its members. They have schemes for healthcare, children's education, employment for their handicapped children and a retired members' security scheme, thus laying emphasis on the welfare of members not only during their tenure of membership but throughout their whole life. To forge relationships with the owner-members that retain their trust and dissuade them from going elsewhere, some co-operatives are providing unique services leading to the achievement of positive change. For instance, banks and marketing societies provide round-the-clock pharmaceutical services (Kannur Town Service Co-operative Bank, Kerala; The Totgars' Co-operative Sale Society Ltd, Sirsi



Karnataka); primary agriculture credit societies give assistance with final rites and an interest-free loan facility to backward class members (Tattisara Group Seva Sahakari Sangha Ltd, Karnataka),

The co-operatives mentioned above not only have visionary leaders but also helped their organisations to accomplish the vision of their members and their organisation’s mission. They have people-driven focus and embark on ideas, information, interaction and initiatives to enhance their image and reduce inefficiency. According to the management of the sample units, these participatory and need-based strategies have nurtured their relationships with members and strengthened their determination to manage the transition. It has helped them to establish joint accountability for leveraging financial, technological and human resources to create competitive advantage.

### Effect of Need Fulfilment Initiatives on the Organisation – A Comparative Study

Need fulfilment initiatives, although not yet much practised, are gaining importance in the business strategy of co-operatives. Wherever they are successfully implemented in the co-operatives surveyed, they have yielded good results for the organisation. For the purpose of convenience, only two important parameters are taken into consideration in this paper: i.e., organisations have experienced *more member exposure* to the activities and are *stronger* when compared to those societies having poor activities, the analy-

sis of which is shown below.

For the purpose of analysis, the trend of the extent of different types of need fulfilment activities initiated in the units and the actual exposure of respondent members to various activities during the period of study are taken into consideration. The relevant data are presented in Table 1 for the purpose of chi-square analysis.

**Table 1. Need Fulfilment Activities in the Co-operatives and Exposure of Members to the Activities**

| Activities in the units | Exposure       |                 | Total           |
|-------------------------|----------------|-----------------|-----------------|
|                         | Good           | Poor            |                 |
| Good                    | 42<br>(93.33)  | 3<br>(2.14)     | 45<br>(24.32)   |
| Poor                    | 3<br>(6.67)    | 137<br>(97.86)  | 140<br>(75.68)  |
| Total                   | 45<br>(100.00) | 140<br>(100.00) | 185<br>(100.00) |

$\chi^2 = 148.97$   $P < 0.001$  V.H.S.

Note: Figures in parentheses denote percentage to the column total.

The trend highlights a good association between the need fulfilment activities and exposure of members to the same ( $\chi^2 = 148.97$   $P < 0.001$ ). This indicates that the need fulfilment activities elicit member involvement, which is otherwise difficult to secure. The managements of the progressive societies have asserted that the activities have enhanced the self-confidence of the members and the institutions with a “can do” spirit, contributing positively to the society.

The extent of the strength of the organisations is ascertained with the help of

three parameters, viz. percentage growth in membership, share capital and profit. It is calculated separately for the societies with good initiatives and poor initiatives (Group 1 and Group 2 respectively). Further, an analysis is made with the help of Median, Standard Deviation and the Mann-Whitney U-Test (non-parametric). The result of the analysis is presented in Table 2.

The data in Table 2 indicate that the organisations having good need-based micro-activities for their members have shown more growth in terms of membership, share capital and profit, reflected in their overall strength, than those societies having fewer activities. However there has been a decline in the percentage of the growth of share capital and profit in respect of one society in the group 1 category, due to sluggish business caused by legal restrictions imposed on the marketing of its products. But the situation has

not deterred them from initiating activities for the members. Instead, this has caused them to diversify their business with unflinching support and member loyalty.

### Suggestions

The survey shows that it is possible to retain the membership base leading to increased economic growth, as is evident in some of the progressive societies surveyed. The following suggestions are worth considering for effective member relationship management at the level of primary co-operatives.

- MRM should be treated as an integral part of the business strategy. And the structure, systems and processes of the co-operatives should be re-engineered to implement them effectively.
- Co-operatives should train their employees and management to treat

**Table 2. Strength of the Co-operatives - A Comparative Analysis**

| Group | Values         | Growth in Membership | Growth in Share Capital | Growth in Profit |
|-------|----------------|----------------------|-------------------------|------------------|
| 1     | Median         | 5.6800               | 18.0000                 | 39.0600          |
|       | Std. deviation | 24.2811              | 15.1501                 | 58.9351          |
|       | Minimum        | 0.43                 | -5.66                   | -15.49           |
|       | Maximum        | 67.74                | 47.09                   | 140.07           |
| 2     | Median         | 1.6750               | 1.4450                  | 4.1850           |
|       | Std. deviation | 18.8018              | 41.0749                 | 27.9904          |
|       | Minimum        | -65.56               | -98.63                  | -67.78           |
|       | Maximum        | 69.74                | 178.58                  | 59.38            |
|       | Z              | +2.266               | +1.983                  | +2.478           |
|       | P              | 0.023 Sig            | 0.047 Sig               | 0.0132 Sig       |

Note: Group 1 represents societies with good activities.

Group 2 represents societies with poor activities.

their member-customers in the way they themselves would like to be treated.

- A member relations cell/forum/committee should be established in every co-operative. Involvement of members in planning and implementation of the activities is vital to enhance their sense of responsibility and stimulate their active involvement.
- Integrated support of the Government and the Co-operative Department is paramount for the smooth implementation of the need fulfilment initiatives
- The system of patronage refund should be practised so as to strengthen the member allegiance and the economic participation of the members.
- The co-operatives should make a provision in the budget for the member relations activities. They should cre-

ate a fund for this purpose and appropriate a certain percentage of profit to the same, before the amount is allocated to the reserve fund. The co-operative federations should essentially fund the activities of their affiliated primary co-operatives.

## Conclusion

Co-operatives need to develop their business, not by looking only at the external market structure but starting from within by attending to the changing needs of their members. In this process, member relationship management is an imperative exercise as is evidenced in the empirical examples. It is only then that co-operatives can win the unflinching patronage of their sizeable market of nearly 200 million members and the world's largest co-operative network can become the world's strongest movement. □

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