

# Review of International Co-operation

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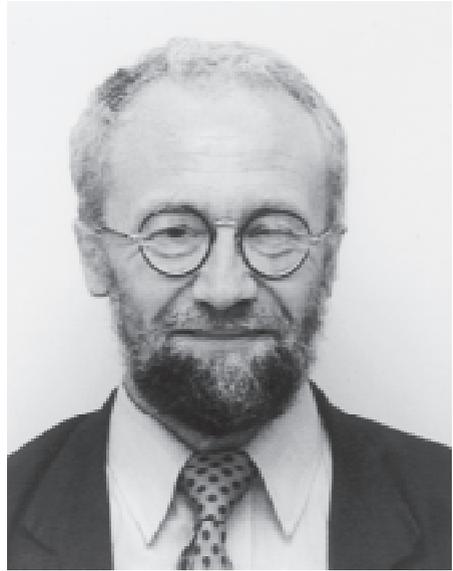


# Editorial

This issue of the Review of International Co-operation is slightly different to past research issues. Since we have now moved to more regional research events as well as global meetings, this issue is based on three research meetings. Singapore saw the first meeting of the Asia-Pacific Research Committee in June, Oslo the European meeting in August, and Rio de Janeiro the meeting of the new Latin American Research Committee in December. We have really been faced with an embarrassment of riches, and it has been more than usually difficult to make the choices this time!

As the new millennium begins, and we continue to hear about the pressures of globalisation and increased competition, I think it is particularly cheering to see the co-op movement embracing the spirit of the new era, in a number of moves to meet the challenge of the knowledge economy.

I think the increasing global co-op research activity and its good relations with the rest of the movement is only one sign of this; the expertly coordinated “dot.coop” coup is also massively welcome! [Incidentally, early discussions about this were initiated at our Oslo research conference, though of course there was a huge amount of hard work by many others subsequently, but this is the kind of innovating role I’d like to see our research meetings playing – and this could be seen in Oslo where two of the liveliest sessions were on e-commerce and co-op legislation].



These are some of the most topical issues, but there are still many other challenges that co-ops are facing, and which researchers can continue to help to address. Typically these include issues of co-operative difference, bringing values and principles into practice, managing the tension between business and ethics/values – better still turning the tension into a positive, mutually reinforcing relationship; issues to do with raising capital and growing without losing membership orientation; developing globalisation strategies that combine the advantages of size with localness. The list goes on; the comforting thing is that the business part of these issues is not unique to co-ops – others face the same situation. Secondly the tide is turning, or appears to be, in the sense

that values and business are increasingly seen hand in hand as a mutual success story. Take one piece of evidence: The Financial Times in March 2001 launched indices for ethical investment and noted that “Socially Responsible Investment” is doubling every two years. Good news! And while such markets may not be suitable for all co-ops, it signifies important new trends for which co-ops are uniquely well suited.

We hope that through our global and regional conferences, researchers will continue to play vital roles in identifying these key trends for generating co-operative advantage through enterprise and values within an increasing global civil society; and that they will continue to draw out the theoretical and practical lessons – for debate with the movement.

The conference settings each provided interesting metaphors for this new co-operative millennium: Singapore – the supremely modern post-industrial city state; Rio – exciting, throbbing with vitality; and Oslo, where we emerged from a densely foggy cloud to sparkling sunshine and stunning views over the city and surrounding countryside.

The three conferences produced something approaching 100 papers from 30 to 40 countries! So choosing a selection has been tough, also because of the need to reflect developments in different sectors and regions of the world; but I’ve been ably assisted by the conference organisers – Akira Kurimoto (Japan) for Singapore, Tom Johnstad (Norway) and Yohanan Stryjan (Sweden) for the Oslo meeting,

and Mirta Vuotto (Argentina) with Sigismundo Bialoskorski Neto (Brazil) for Rio de Janeiro.

We begin with a paper addressing an issue relevant to all types of co-ops in all regions. While the three most important factors in retailing might be location, location and location, it could be argued that the equivalent three factors for sustaining membership in co-operatives might be communication, communication and communication! Of course membership is more than this – participation and benefits are central, but I exaggerate to make the point that communication is frequently inadequate.

McCarthy and Ward use the case of the Irish credit unions to examine how it can be analysed and improved.

Next we move to Japan where joint buying through the “Han” system has been the backbone of the impressively expanding consumer co-op system since the 1950s. The Han is a local group of people (usually housewives) who order as a group and receive deliveries of goods, helping to strengthen the sense of community. As Kurimoto notes, “The idea itself originally goes back to the 1920s in Tokyo, but it was only in the late 1960s that Joint Buying was established as a business model.” With changing technology – the growth of the internet, the growth of female employment, and increasing demands for an individual rather than a collective service – the consumer co-ops have had to adapt.

The Han model itself is of great intrinsic interest, but also the strength home-delivery in Japan provides

interesting evidence of the prospects for home delivery and internet ordering in other countries.

The third paper by Fairbairn develops a most interesting perspective on co-ops – that of social movements. By reminding us that the co-op sector emerged from dynamic exciting socio-cultural movements in society, it emphasises the importance of reflecting on how we can continue to retain the energy and vitality of a movement within our co-operative sectors. Clearly this has implications both in terms of thinking of co-ops as part of a movement, and thinking about their relation to new social movements.

The worker co-op sector in many Western countries grew from new alternative and ecological social movements emerging during and after the 1960s. These co-ops have certainly added a lot to the whole sector, and this raises the question of how to build, sponsor and nurture relations with new social movements that have a particular bearing on co-op activities – the ethical consumer movement might be the most relevant current example.

Brazda and Schediwy have written a considerable amount on co-operatives, and based on their accumulated experiences they propose some hypotheses about preconditions for successful co-ops (mainly in the consumer and credit union sectors). Drawing on ideas about lifecycles of organisations, they differentiate between the early founding phase and the later successful continuation of established co-operative enterprises.

The fit with the previous paper is quite good as they emphasise the significance of collective mobilisation for co-operative formation. However they also note that this is not usually sufficient for establishing a successful movement. With regard to established co-ops, although they recognise the importance of member democracy, they place most emphasis on leadership: the “continuation of an effective and yet co-operatively minded management, especially after the retirement of the generation of charismatic leaders still marked by the idealism of the foundation phase”.

If the papers up to this point haven't provoked your thoughts enough, Gary Lewis on Edgar Parnell's prayer should provoke you in ways you didn't think were possible, like a Carlsberg of the co-operative world. It's a gem – read and enjoy!

Yair Levi is an outstanding figure in the co-operative landscape; a man with immense energy and experience, he must have travelled the world many times, continually writing, and producing his Journal of Rural Co-operation for many years; he never fails to generate interesting views and ideas. In this paper he contrast external/internal co-op principles over the years, with the aim of charting changing responses by the co-operative movement to social and economic changes in the world over the years. He points to trends towards general demands for solidarity, community relations and a new role in the changing nature of work. He regards various moves to open the co-operative structure to other

stakeholders as major ways of meeting such demands, particularly through the tool of multi-stakeholder co-ops. One couldn't argue with the relevance of such structures to welfare sectors, as evidenced by the large numbers of (multi-stakeholder) social co-ops in Italy. However they do raise interesting issues that only further research will resolve (!) – like can the different stakeholders (e.g. workers and users) resolve goal differences easily? And can such structures bring out the best in both (developing a win-win situation) so that users get good quality service and workers are well motivated and involved? And how stable are such structures over time? The jury is out, but we will be watching carefully.

We now move to some of the impressive output from the Rio Conference. Sigismundo Bialoskorski Neto examines the context for the development of Brazilian co-ops. He reports a very impressive growth rate of 60% in the number of co-ops during the 1990s. However, there were substantial variations between sectors, and he identifies a number of contextual factors that influenced this picture: an improved legislative framework, better possibilities for raising finance through co-operative bonds, more autonomy from government, but increased competition took its toll in some sectors.

Mirta Vuotto, who did so much to make the Rio research conference so successful, has produced a summary paper of the meeting drawing on about half of the 26 contributions. It was interesting to see a number of

longitudinal studies, some over 10 years or more; as well as seeing the great diversity of experiences, with several papers critically analysing the changing nature of state/co-op relations. It is also interesting to note, as one might anticipate from the influence of people like Freire, that there is a rich seam of experience with self-management and educational initiatives; and that social audit also has a good head of steam in this part of the world too!

Switching continents we move to another huge and diverse experience which Janardhanam reviews prospectively. Major changes in India, particularly the liberalisation of the economy and the removal of state protection, do not lead him to a particularly optimistic view. Many countries have seen the effects of liberalisation, deregulation and global competition. But there have been some interesting responses, for example emphasising the co-operative difference, using federal structures to get the advantages of scale and closeness to the customer/member, being more entrepreneurial and developing in new sectors like health and social care.

The final paper, by Kim, examines the effects of mergers in Korean agricultural co-ops. In the paper he gives an overview of the whole co-operative sector in Korea, and he has accumulated an impressive amount of data on the agricultural sector. His sample showed a considerable degree of merger activity matched by a huge increase in business volume (by a factor of 25) over an eight-year period.

But the data were used in an econometric analysis which showed that economies of scale had not generally been reached, except possibly in credit services. However interviews with farmers indicated pessimism (perhaps an occupational hazard!) though they recognised substantial improvements to banking services provided. Clearly merger activity is not in itself a winner, unless it can also demonstrate economic benefits and persuade the farmer members too. As Kim notes, further research is needed on this important area. That was the point where I came in a few pages ago, and so it is very fitting that we next meet after further research at our Global Research Conference in Seoul in October 2001.

I want to finish with a few words about dissemination and future meetings. We have consistently pursued a number of strategies for improving the dissemination of our research findings. Besides the selected “best” papers for this RIC special issue, we have developed good relations with a number of journals which have shown substantial interest in taking papers from our conferences: e.g. the *Annals of Public and Co-operative Economics*, *Revue des Etudes Coopératives*, *Mutualistes et Associatives*, *Coopératives et Développement*, and the *Journal of Rural Co-operation*; we

hope this continues, as it is very important to us that our research becomes more and more widely read.

In future we have decided to hold global research meetings ever other year, but to stimulate regional research activities and meetings every year. Thus we have two regional meetings this year (Gavle, Sweden in June – but this is on the wider social economy; and Buenos Aires in September), both of which are open to researchers and co-operators from other continents. Our main conference, however, is our Global Meeting in Seoul, and we are looking forward to a lively event.

See you there!

I must pay particular tribute to our regional organisers mentioned above for Rio, Singapore and Oslo. We would like to thank everyone who worked on these three conferences in 2000. And we are grateful to our sponsors who helped make things more pleasurable and more economical. Thanks also to Iain Williamson for editorial work on this issue. Finally we’d like to thank regular stalwarts: Angela Walters at Co-ops Research Unit, Open University; and ICA staff in Geneva and Delhi who helped to put this issue together.

Happy reading!

***Roger Spear***

*Chair ICA Research Committee*

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PS: Check out details of future conferences on our web page:  
<http://www.coop.org/ica/ica/sb/research.html>

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# Communicating the Co-operative Message:

## A Case Study of the Irish Credit Union Movement

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by Olive McCarthy and Michael Ward\*



We live in the age of the sound bite and the spin doctor, when communicating for public relations and image can often take precedence over communicating substance and truth. In the early 1980s, Briscoe et al (1982:50) pointed out that *“many organisations conduct their activities in a covert fashion. They are cloaked in a veil of secrecy. Accessibility to the organisation and the availability of information regarding its operations and their effects*

*are confined to a select few”*. These observations are still relevant today. PR consultants earn hefty sums as large amounts of money are invested by organisations in communicating carefully edited snippets of information, neatly packaged and aimed towards building brands, image and loyalty within the conventional political and economic spheres.

Communication for co-operatives, we hope, is something much different. It emphasises honesty, integrity and openness. The co-operative reports regularly and openly to the members on its activities, its financial

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operations, its benefit to the members, its democratic spirit, its co-operation with other co-operatives and its contribution to the community. It seeks to educate its members on the co-operative philosophy and on getting the maximum benefit from its services and facilities.

Co-operatives deliver truth to their members and to the wider community and have the courage to admit mistakes if they are made. Members can easily measure the performance of their co-operative on both economic and social criteria because of the wealth of information available to them.

But wouldn't the co-operative world be a very unexciting place if things were that easy in practice? Naturally, problems can and do arise. This paper examines some of the communication issues in co-operatives using the Irish credit union movement as a case study.

### **Communicate or Stagnate**

Why is communication important for co-operatives? Parnell (1999) states that the task of communicating is vital to the success of any co-operative enterprise. The very essence of co-operation lies in effective communication. While the co-operative principles may say absolutely nothing about communication, they rely entirely on effective communication to make them work.

Co-operatives can best serve their members if members communicate their needs to the co-operative and the co-operative informs members of the services available and how member needs are met. Some of the reasons

why credit unions might need communication include<sup>1</sup>:

1. To keep the objectives, benefits and successes of credit unions clearly to the fore in the minds of members, employees and all those actively involved in the credit union.
2. To remind members, employees and all those actively involved in the credit union of their responsibilities and duties within the credit union.
3. To retain the commitment and interest of members and to encourage them to actively participate in their credit union.
4. To inform members of the services available and new services being introduced.
5. To ensure that all members of the credit union are aware of the credit union's policies, progress, problems, and developments.
6. To facilitate meaningful participation by all members in decision-making.
7. To remind government, legislators, banking institutions and other key stakeholders of the objectives and uniqueness of credit unions.
8. To educate and re-educate all members in co-operative ways and principles.
9. To facilitate co-operation between credit unions.

Sherry (1994) makes an interesting analogy that helps to explain the importance of communication in credit unions. He describes credit unions as *engines*, lubricated by the *oil of communications*. Although the oil is

not part of the engine itself, it is vital to its smooth and efficient operation. One would imagine that were the oil to be withdrawn, the engine would come to a grinding halt. Thus communication may be considered to be the lifeblood of any credit union or co-operative.

## **The Irish Credit Union Movement**

In Ireland almost every local community, both urban and rural, is served by a credit union. There are over 550 credit unions with a total membership of over 2 million people, representing a penetration of about 50% of the population (including Northern Ireland). Irish credit unions are largely managed by volunteers. The boards of directors are entirely voluntary and are responsible for the strategic management of the credit union. Responsibility for day-to-day operations is usually delegated to a salaried manager and staff. There are still many opportunities for members to participate on a voluntary basis in the credit union at board level, sub-committee level or even as a teller. The general membership can participate in discussion and decision-making at the annual general meeting.

The Irish League of Credit Unions acts as the national umbrella body for most Irish credit unions, providing some central services, lobbying on behalf of credit unions and recommending policy for the movement. A regional network of credit unions is facilitated through the grouping of credit unions by geographical chapter, enabling contact and co-operation between credit unions on a more local basis.

## **Communicating the Co-operative Message**

The Irish credit union movement is currently experiencing a very exciting although somewhat turbulent period. Within the past three years the introduction of more comprehensive legislation, the changeover to the euro currency, moves towards inclusion under a Single Regulatory Authority and legal challenges from the banking and building society sectors have resulted in many long days and long nights for credit union activists.

One issue, in particular, demonstrates a valuable lesson in communications for all co-operatives. A number of credit unions have been involved in some interesting local initiatives aimed at creating local employment and providing economical local housing. These initiatives are normally undertaken outside of the core activities of the credit union and involve the commitment of some of the credit union's financial and human resources.

A fair-minded individual would expect that there might be some return to these credit unions above and beyond the satisfaction of making a worthwhile contribution to the local community. It might be expected that the credit union would be held in higher esteem by its community, expressed in terms of increased membership, increased use of its services and even a greater desire to participate in the operations of the credit union. Loyalty towards the credit union from the community would be built up.

Byrne (2000) examines some of those

credit unions that have become involved in these initiatives in Ireland and measures the extent to which their involvement has had any type of impact on the credit union members in terms of numbers, commitment, participation, expectations and image. No impact of any significance was uncovered. Furthermore, credit union members did not appear to be even aware of their credit union's involvement in these initiatives.

It appears that credit unions have not communicated their involvement in these initiatives to their communities and have missed a valuable opportunity for the promotion and marketing of the credit union idea.

### **Member Communication**

Recent research by the authors<sup>2</sup> explores the issue of communications within individual credit unions throughout Ireland. For the purposes of this paper we will confine the discussion to our findings on communication between credit unions and their general membership and illustrate some of the opinions of the 143 members who were interviewed. We will then draw some general conclusions for the credit union and co-operative movements as a whole.

Credit unions must aim to communicate with their members as much as is practical. The number of members in a credit union can often dictate the frequency with which information is communicated to them. As would be expected, perhaps, staff are a very important means of communication of information for members. Staff are often the first point

of contact for members and need to be well trained and to present a good image of the credit union. Staff must also know how to *really listen* to the members and to bring information in the form of complaints, requests and feedback back to the board of directors. Of course, boards must not rely solely on staff members and should employ a variety of techniques to stay in touch with their members' needs and expectations.

Interestingly, only 4% of the members interviewed for our research mentioned the credit union's annual report as a source of information for them. One member went so far as to say that *"I get an annual report but the financial statements are quite hard to understand. Any information I get on services that the credit union provides I get from people I know who are also members."* The quality of information in annual reports can vary greatly across credit unions and many credit unions go to great expense and trouble in producing a glossy report.

The annual report is considered to be one of the principal formal written documents used in organisational communications and over time has evolved to play a valuable public relations role, besides simply presenting financial data (Murray, 1979). In fact, it is argued that the chairperson's statement in the annual report, as well as being relatively easy to understand, may reveal more about the development of the organisation than the published financial data (Hind, 1997). Credit unions would do well to remember that it is essential for their annual report to be well

structured and that it can be an instrument for delivering clear information to the members.

The annual general meeting is also an essential element in member communications in credit unions, yet only 7.7% of members mentioned it as a means by which information flowed to them. AGM attendance is poor in most Irish credit unions. However, credit unions can take some comfort in the fact that the problem is not unique to them, as many other voluntary and political organisations are experiencing similar difficulties.

It is probably to be expected that there would be low levels of communication between individual directors and members. Less than 3% of members interviewed mentioned the directors as a means by which they receive information from the credit union. Indeed, it is true to say that in some credit unions, members are not even aware of who the directors are and may only see them once a year at the AGM, if they ever attend the AGM.

Members were also asked how information flowed between them as members of a common co-operative organisation. Word of mouth is clearly important in the flow of information between credit union members, which may be potentially worrying if accurate information is not being transmitted. It would not be expected that much formal exchange of information exists between members. This is reflected in the fact that over 22% of members said there was no communication between them. Interestingly, 6% of respondents named the AGM as a means for the flow of information between them as

credit union members. This is probably the only formal means through which members can meet as members although they meet informally in the credit union office. It may indicate that formal meetings of members may be a useful mechanism for communication between members.

Over 70% of members who were interviewed were either satisfied or very satisfied with the access they had to information, and recognised the role of staff in providing it. However, concerns were expressed that members have to ask for any information they need. This is in sharp contrast to the amount of unsolicited information sent to banking customers.

Some of the Irish credit union chapters have undertaken joint marketing initiatives whereby ideas and finances are pooled in conducting credit union marketing initiatives. Many of the credit unions involved are reporting large increases in lending. However, the obligation on credit unions to educate their members means that they must go beyond advertising and promotion when communicating with members. Information relating to the rights and obligations of being a member of a co-operative must be communicated. This is particularly important so that members may understand the unique nature of credit unions and be able to differentiate them from mainstream banks. A clearer understanding by members of the co-operative difference will help to protect credit unions against the threat of demutualisation and from unsuitable legislative and taxation provisions. Indeed, instilling in the member a greater sense of being part of a

movement and giving them a co-operative identity will help to build their loyalty and commitment.

The present role of technology in member communications was perceived by members to be minimal. This is not surprising, as credit unions provide a very personal service to their members and are valued for doing so (Bowen et al, 1999). However, they have also been slow to adopt banking and other communications technologies due to small size, limited common bonds, the size of the required financial outlay and, possibly, lack of foresight and knowledge. Additionally, members may have lacked the necessary equipment to receive information in a technology-based format.

However, times are changing. The general public, including credit union members, is becoming more conversant with technology, and credit unions are being forced to adapt accordingly. The growing popularity of and demands for internet-based communication has led many credit unions to develop their own website and email address for communication with members. This has been one of the key technologies to be adopted almost globally and is becoming a more and more acceptable means of communication. In fact, many experts in the United States agree that some level of internet presence is essential for the continued survival of credit unions (Taylor, 2000).

The Irish League of Credit Unions has launched its own website in the past two years with links to credit unions throughout the country. A number of individual credit unions also maintain

a website, albeit purely for informational purposes, as services are not yet offered by credit unions through the internet.

Growth in access to the internet in Ireland is increasing and opportunities do exist for credit unions to use it as a means to communicate with their members. However, as people-based co-operative organisations, on-going face-to-face communication with members is still a valuable strength of credit unions and must continue to be built on. While technology can bring many benefits to credit unions, it will be important to ensure that it does not exclude those members who, for one reason or another, do not have access to such technologies. Maintaining the "personal touch" while also adopting new communications technologies may give credit unions a competitive edge over more conventional financial institutions.

### **The Challenge for Credit Unions and Other Co-ops**

Some conclusions can be drawn that are relevant both to credit unions and to other types of co-operative. Firstly, it is imperative that co-operatives communicate their activities to their stakeholders. This is essential in strengthening co-operative identity and in differentiating the co-operative from conventional organisations.

Conventional communications channels need to be used, the most obvious of which are the advertising media. Secondly, co-operatives do not advertise or promote themselves enough. Many co-operatives think it a waste of members' money to advertise. This is a mistaken attitude.

Co-operatives that advertise should attempt to build on the co-operative message, rather than advertising services and products alone. If members fully understand the co-operative message they will want to use the services and products of the co-operative. Thirdly, co-operation between co-operatives in communicating the message of mutuality can serve as a com-

petitive advantage. Attacks on mutuality must be defended and the message of mutualism must be communicated in both words and deeds. Finally, the role of communication technologies must be recognised and investigated more fully. However, co-operatives should be careful to continue to build on their personal touch so valued by their members.

## **NOTES**

1. Partly based on Smith & Guiton, *Communications in Co-operatives*, CCAHC, UK, 1976.
2. McCarthy O., O Fathaigh M. & Ward M., *Credit Union Communications*, Centre for Co-operative Studies, UCC. Forthcoming 2001.

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# Innovating a Joint Buying System through IT

by Akira Kurimoto\*

## Introduction

The Joint Buying System (home delivery to Han groups) has been the driving force of the Japanese consumer co-op's expansion since the 1970s. It has been the successful business model, combining economic efficiency with active member participation and giving co-ops the competitive edge.

The key elements of the Joint Buying System are Han groups, co-op delivery staff, CO-OP own-label goods and support functions (warehouse and computer). Han groups consisting of three to five members place orders with co-op delivery staff, who distribute orders in the next week. Members have to do a lot of the chores themselves: collecting order sheets and money, tallying individual orders to make a group order, sorting the dispatched products among members etc. As such, this system presupposes the active involvement of housewives who can place and receive orders at home.



The Joint Buying System has evolved. The first generation was gradually replaced by the second generation using electronic devices to reduce members' burdens. Substantial investment has gone into developing these devices. Although rationalisation has taken place, however, the core of the system remains based on Han groups.

Now the Joint Buying System is facing new challenges: fewer members are staying at home while more of them are working away from home; lifestyles are changing, with more individualistic attitudes; and there has been the advent of the internet and on-line shopping. So innovation has been needed in two directions. One is to provide more individualised services, including individual home delivery.

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This can be described as the third generation. The other is to create a new business model of shopping on-line. Co-ops have the potential for this as they have the key factors needed for successful e-commerce: trust, customers and physical distribution. Now they are launching shopping and community sites on the internet.

### Joint Buying as a Successful Business Model

Joint Buying (*Kyodo Ko'nyu*) is a unique system of consumers' collective buying of daily necessities, especially food items, introduced by the Japanese consumer co-operatives in the 1970s. The idea itself originally goes back to the 1920s in Tokyo, but it was only in the late 1960s that Joint Buying was established as a business model. In the wake of consumerism, a large number of housewives worked together to buy "pure milk" in protest against the gimmicky milk containing food additives that was widely marketed by

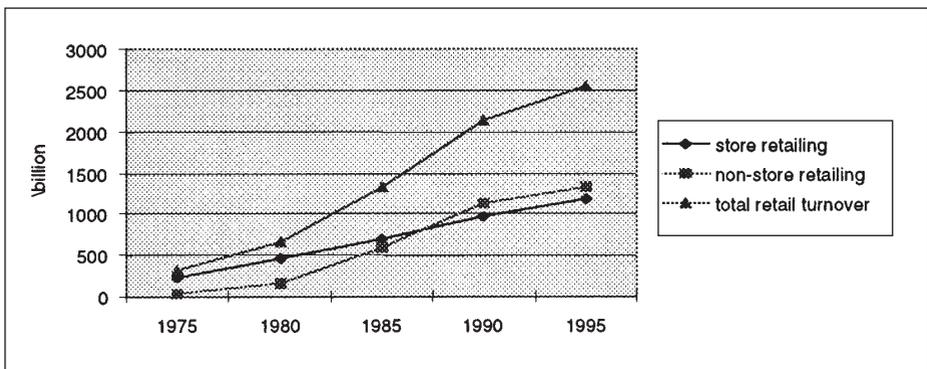
the major dairy companies. Such spontaneous buying clubs had grown into the consumer co-ops, often assisted by experienced managers who had worked with university co-ops.

After several years of trial and error, Joint Buying proved to be the driving force behind Japanese co-operatives' expansion from the 1970s. At that time the yearly growth rate exceeded 20 to 30%, thus largely contributing to the co-op's overall growth.

By the mid-1980s non-store retailing, which was the equivalent of the Joint Buying in that period, had surpassed store retailing. (Tables 1 and 2).

The Joint Buying System had some advantages in comparison with store retailing. It could be started with relatively little capital; co-ops did not have to make heavy investment in store sites and facilities; all they needed were computers and offices/warehouses. It did not require the sophisticated retail techniques that could be obtained only by hiring

**Table 1. Evolution of Retail Co-op Sales**



**Table 2. Key Figures of Japanese Consumer Co-ops**

Year ended	Mar. 1980	Mar. 1990	Mar. 2000	'80/'90	'90/2000
Co-ops	657	665	667	101.2%	100.3%
Members (A)	6,374,698	13,364,233	20,813,503	209.6%	155.7%
Han groups	190, 052	943,285	1,633,971	496.3%	173.2%
Han members (B)	1,434,927	5,311,079	7,184,200	370.1%	135.2%
Mmbprs per Han	7.6	5.6	4.4	73.7%	78.6%
B/A	22.6%	39.7%	34.5%		

*JCCU Statistical Review for 1980, 1990 and 2000*

expensive managers or by years of training. Thus this system could be run at lower costs and gave the co-op higher profits, which were often used to offset losses generated in the store operation. This is demonstrated by the contrasted results in the trading profit ratio: non-store retailing earned 3.4% while store retailing fell to -2.8% in 1999.

In addition it presupposed the collaboration of members for ordering, receiving and sorting products among themselves. Such voluntary (unpaid) work had contributed to the low cost operation while members were compensated by lower prices than at the stores. In addition it was quite easy for members to raise complaints to the management, which in turn responded to their criticism by improving products and operations. Such feedback worked well and strengthened members' loyalty to the co-op. Thus the Joint Buying System could combine economic efficiency with member participation. It has proved to be a viable business model,

giving a competitive edge to the co-ops. A number of retail operators, including the largest retailer in Japan, tried to imitate the system but soon failed to sustain it since it lacked the core of the system, i.e. Han groups.

**The Key Elements*****Han groups***

Han is a Japanese/Chinese word which literally means a small unit of the organisation. In the co-operative context it is a group of more than three members living in the neighborhood. The Han has several functions: a communication channel between members and the management or among members, a constituency to elect delegates to the AGM or a unit to receive dividends. Being a spontaneous group, it is the Han's own choice whether they meet at members' private houses according to the co-op's timetable. But when they are connected with the Joint Buying System, it becomes an organisational arrangement with more binding functions. In fact, the Han is a

prerequisite for undertaking Joint Buying. It is the unit where members place orders and receive products. The Han also serves to strengthen communication among members, thus cultivating a sense of community. It has to fit in with the lifestyle of housewives who live nearby and have common concerns such as food safety. Thus the Han became the infrastructure of Joint Buying.

**Co-op delivery staff**

The second element is the co-op’s delivery staff. They receive orders and money from Han leaders on a fixed day of the week and deliver products to Han groups the following week. They also channel other information between the co-op and members: complaints and requests about products and operations, the co-op’s feedback to members, the co-op’s GMO policy etc. They are expected to act as delivery people and communicators.

**CO-OP label and Sanchoku produce**

One reason members undertake Joint Buying is to buy “safe and reliable”

products. Consumers’ concerns about food additives, agri-chemical residues, excessive packaging, misleading labelling and environmental problems have resulted in the development of alternative products. CO-OP label goods have been developed in response to members’ calls for safer products in grocery and non-food. For produce and meat products, a direct contract between consumers and producers (Sanchoku) has been introduced to ensure safety and reliability through precisely defining the methods of cultivation/feeding and the use of chemicals/drugs in the contracts. These products can range from 400 to 1,000 items.

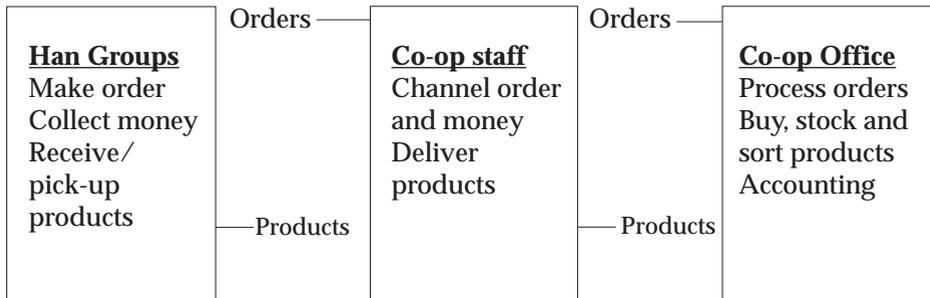
**Support functions**

Joint Buying is supported by back office functions such as data processing of orders and warehousing of products. The co-op office functions include editing catalogues and keeping accounts. (Table 3)

**Evolution of Joint Buying**

Joint Buying has evolved to meet members’ expectations. The first

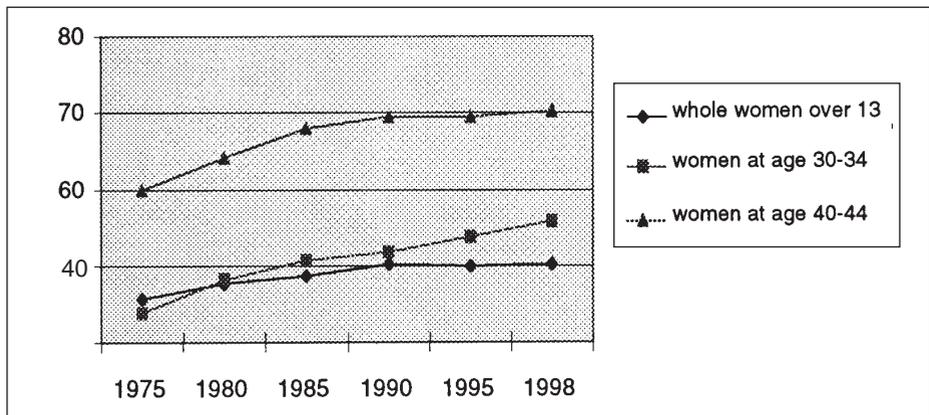
**Table 3. Flow of Joint Buying System**



generation in the 1970s is characterised by active member involvement; Han leaders or members in charge had to collect order sheets and money from other Han members; they had to tally individual orders to make a group order; they received products in bulk, which had to be shared out among the group at or in front of the member's house. In the beginning they were enthusiastic enough to undertake such manual work, but it was a time-consuming and cumbersome duty where participation was confined to the activists. Just imagine having to make the correct calculations for group orders for five members and hundreds of items without software like MS Excel! So Joint Buying took off in the 1970s, but a breakthrough was needed to make further progress and attract broader segments of the population. The second generation, in the 1980s, introduced electronic devices to reduce members' chores. Firstly, OCR (Optical Character Reader) sheets or hand-held terminals replaced the cumbersome

ordering process. In the former case, members fill in order sheets with the quantities they wish to buy and submit them to Han leaders who in turn hand them over to co-op staff. They do not need to tally – OCR will do this. In the latter case, the terminals are supplied free of charge to members who input orders using ten keys. ROM (Read Only Memory) cards containing orders are handed over to co-op staff or orders are transmitted by telephone couplers. Secondly, payments made through individual members' bank accounts replaced the cumbersome handling of cash in Han groups. The bill is charged directly to a member's bank account. This greatly reduced members' psychological and material burdens, as they often had to make up for any deficiency when it happened. These innovations were introduced to most of the co-ops; it became relatively easy for them to expand membership and turnover. In fact, the 1980s proved to be the golden age of the Joint Buying System.

**Table 4. Proportion of Working Women (%)  
Prime Minister's Office**

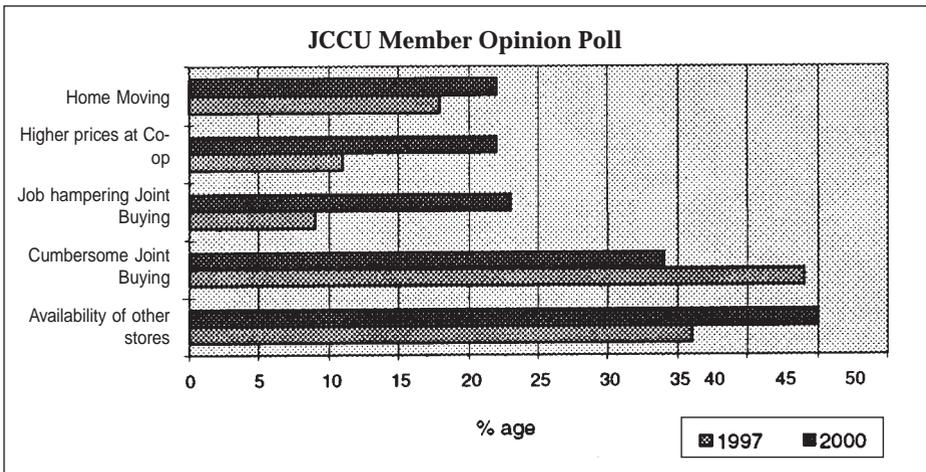


## Challenges Facing Joint Buying

Today the Joint Buying System is facing a number of challenges. The most visible change is that fewer members are staying at home while more are working outside the home. The proportion of full-time housewives among members is higher than the national average, but the number of women with part-time and full-time

their lifestyles associated with the diversified value system. A smaller number of children and longer lifespans have enabled women to choose lives different from the traditional gender roles. A more individualistic attitude has prevailed, especially among the younger generation. They prefer the community of common interests like ecology groups, etc to the more binding organisations such as territory-based

**Table 5. Reasons to quit shopping at the co-op**



jobs is increasing year by year. The bulk of co-op members are in their 40s and 50s where the proportion of women who work is highest. (Table 4) It means a large number of members find it difficult to take part in Joint Buying; its institutional base is shrinking. Some co-ops tried to tackle this problem by delivering products at night or weekends, but it was not possible to reverse the trend. So it was felt necessary to renovate the system itself. In addition, both housewives and women who work are changing

Han groups. There are a lot of alternative ways of satisfying such diverse lifestyles and needs; hobby circles, ventures and service industries. These trends have been reflected in co-op operations. The JCCU Membership Survey (Table 5) revealed that the major reasons for quitting shopping at the Co-op were related to Joint Buying. Last but not least, the explosive growth of the internet and e-commerce is drastically changing industry and society at large. On-line shopping is rapidly taking over from traditional

store retailing for books, CDs, PCs and software. It is also penetrating the financial and travel industries. In Japan, convenience stores are seen as focal points for physical distribution and secure payment, which are the crucial elements for successful e-commerce. Widespread networks of 50,000 franchisees offer tangible convenience: consumers can pick up the products ordered through the internet and make payment without worrying about security problems. Other powerful competitors are the home delivery services with hundreds of thousands of pick-up points. Now these operators are rushing to create new business models. Such moves are having an enormous impact on Joint Buying.

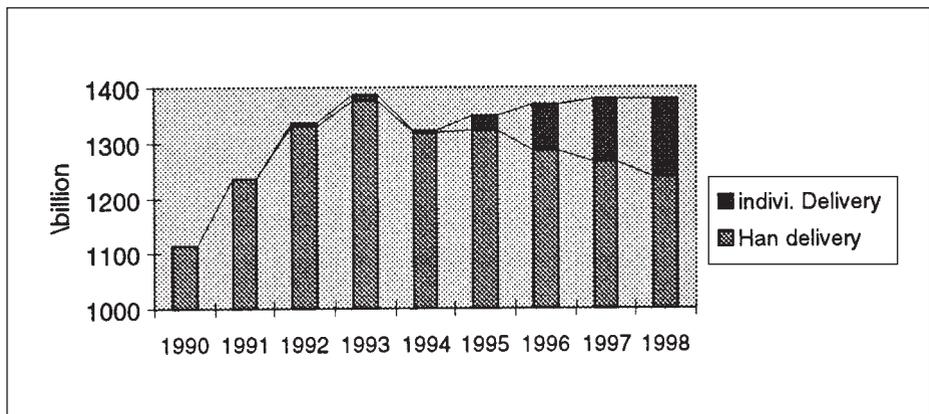
### Innovating through IT

The co-ops' response to these challenges is to provide more individualised services. It can be called the third generation of the Joint Buying System but it goes farther. Some co-ops

started delivering individually sorted goods to Han groups to reduce the burden on members, while other co-ops asked "joint mates" to receive products for Han groups and then deliver them to individual members. These are members who are commissioned to do some work and are paid a small fee.

Among these trials the most strategic was the Individual Home Delivery System (IHDS) initiated by the Metropolitan Area Consumer Co-op Federation (MCCF). In October 1990, three affiliated co-ops started delivering to individual homes to cope with the difficulty of maintaining Han groups. In this so-called Pal System, members could receive products individually for a 500 yen surcharge. The response went far beyond expectations. This system attracted 4,000 members, which was the break-even number, in September 1991. In 1993 the MCCF decided to introduce the Pal System into all the affiliated co-ops. Its sales have grown from 6,689

**Table 6. Individual delivery and Han delivery**



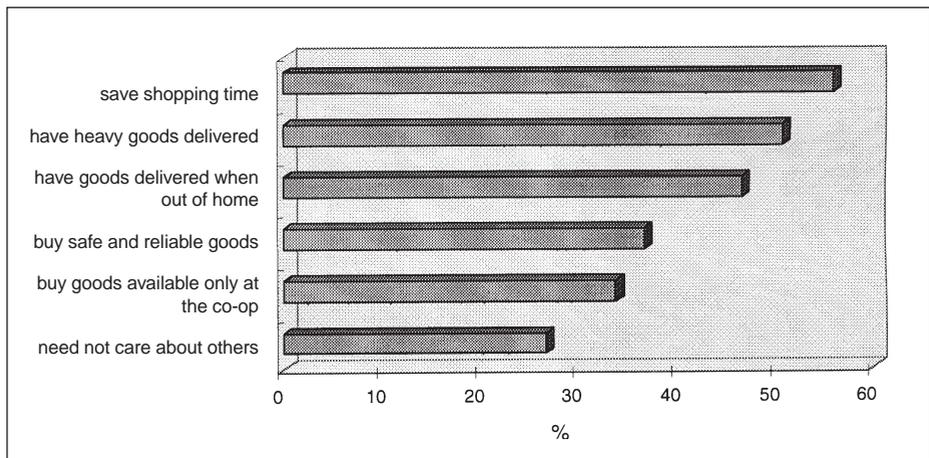
million yen in 1994 to 19,641 million yen in 1996, while participating members increased from 47,000 to 114,000. In 1998 it surpassed the sales of the Joint Buying System.

The Success of the Pal System has given the stimuli to other co-ops, which have been worried about the declining sales of Joint Buying and the growing difficulty of maintaining Han groups. IHDS has been adopted by approximately 50 co-ops. It has grown rapidly and has offset the declining sales of Joint Buying since 1995. (Table 6) The proportion of non-store retailing ranges from 16% to 39% in these co-ops, while the national average is at 13.6%. The JCCU admits that IHDS is a sort of non-store retailing to meet changing consumer needs and stresses the necessity to develop it as a new business model, with a feasible cost structure and viable membership policy.

How do we evaluate IHDS? Is it

supplementing or replacing Joint Buying? It was found to be an effective business model in catering for diversified needs that had not necessarily been met by Joint Buying. Among others, working couples, young couples with babies, singles, elderly households and the handicapped constitute a large part of users. They have found it difficult to take part in Joint Buying, which catered for housewives and typical nuclear families, even though they wished to buy safe and reliable goods. IHDS held out a helping hand to those who had not been involved in or could not continue with Joint Buying. Without doubt it has expanded the opportunity for consumers to take part in the co-op, which has responded to more diversified and independent lifestyles. In the case of the Pal System, more than half of the users had not joined the co-op at all. The surcharge (delivery fee) has not so far hampered

**Table 7. Benefits from individual delivery (JCCU 1998)**



the system. Thus it has served members' needs for convenience. This was confirmed by the JCCU survey on the needs of IHDS users. (Table 7) Among the benefits members felt from IHDS, the highest points were given to convenience, such as "save shopping time", "have heavy goods delivered" and "have goods delivered when out of home". The answer "need not care about others" indicated members' reluctance to join the Joint Buying System. At the same time, IHDS leaves behind the issue of member participation; the new paradigm needs to be developed.

On the other hand, the advent of electronic shopping is changing the face of retailing. It is said that the key factors for successful e-commerce are trust, the customer, and physical distribution. Trust is the cornerstone on which consumers will make transactions with invisible suppliers. The customer will patronise favorite shopping sites on a regular basis. And physical distribution plays the vital role of fulfilling the transactions in the real world. Co-operatives have great potential in e-commerce as they have all these attributes. There are already some initiatives in this field. The university co-ops are forerunners in making effective use of the internet. They have been in the internet service provider business since 1995 and have more than 60,000 subscribers. In

addition, they are operating the shopping site "Co-op Channel" which sells books, CDs, stationery, computer software, etc.

The JCCU started to provide an internet business infrastructure to affiliated co-ops in September 2000 and launched the initial projects jointly with Co-op Kobe and Miyagi Co-op, which are recruiting "Co-op e-Friends" among members for information and feedback while receiving orders for Joint Buying and gift items. The MCCF also established e-commerce and community sites in August. In these cases, co-ops formed alliances with major computer/communication companies including NEC and NTT.

## **Conclusion**

Japanese co-operatives have established a successful business model, namely the Joint Buying System. It has evolved to facilitate easy access through introducing electronic devices. Now changing lifestyles and the internet are bringing new challenges. Co-operatives have to make innovations in the existing business model and create new ones through IT to meet members' needs and expectations. It is also recommended that they develop a new paradigm for member communication and participation in the new environment.

# Social Movements and Co-operatives: Implications for History and Development

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by Brett Fairbairn\*

Co-operatives are enterprises that exist to provide economic services to their members. They could emerge, theoretically, in almost any sector of the economy and in any time and community setting in modern history. And yet, they do not emerge at all times and places: historically, the development of co-operatives has been clustered in certain eras, in certain fields of activity, and in certain regions. There are numerous reasons for this clustering, but one of them is external to the co-operatives themselves and their immediate economic concerns. Where large numbers of co-operatives have been created, this has usually been due, if not to state action from above, then to the activities of social movements.

The importance of social movements has been neglected both in analysis of current prospects for co-operative development, and in co-operatives' understanding of their own history. In



developed countries with mature co-operative movements, co-operative history tends to be institutionalised: the social-movement context is lost or forgotten. In developing countries, the state has frequently played a large role and has often attempted to create co-operatives without attention to surrounding social movements or the lack thereof.<sup>1</sup>

To appreciate the role of social movements means re-thinking co-operative history, with direct implications for all those interested today in the creation of new co-operatives or in the revitalisation of old ones.

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## Rewriting Co-operative History

British historian L.B. Namier once wrote, “Historians imagine the past and remember the future”.<sup>2</sup> This is as true of co-operative history as it is of other kinds. All of us live amid the results of past events. When we think about history, we are trying to imagine what made the world (or our co-operative) the way we know it to have become. To write history is to make a journey of the imagination from a known and presupposed present into a land of myths. We construct the past, and we do so on the basis of our present-day concerns.

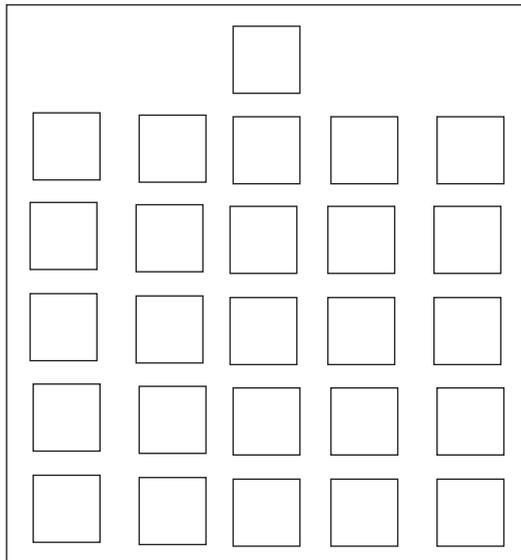
Whether in thick historical tomes or in slim public relations brochures, co-operatives tell and re-tell constructed stories of their own past. They do so

as a way of defining their identity: everyone has to know where they came from, and be able to explain it to others. Often co-operatives seem satisfied to have well-worn, uncontroversial stories (and they may not be grateful for historians who wish to reinterpret those stories!). For institutions of all kinds, a boring history is usually more useful than a true one.

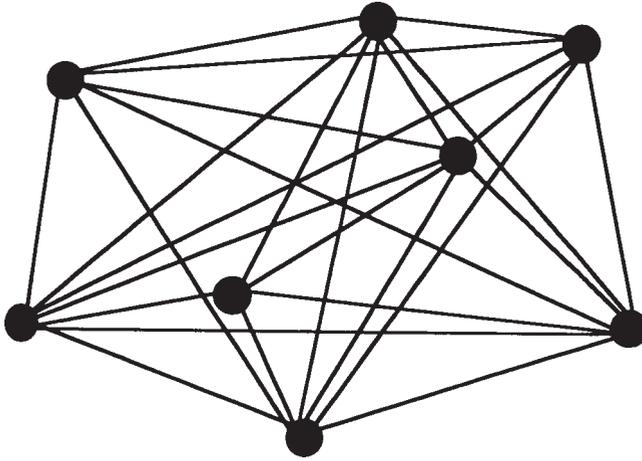
But when times change, co-operatives need to remember their past differently.

Most co-operative history is institutional history: it traces the life story of a present-day co-operative; a kind of organisational biography. Like all good biographies, institutional histories of co-operatives briefly discuss the circumstances surrounding the birth of their subject, and move on

### “Industrial” Model



## “Network” Model



chronologically, stage by stage, in a narrative of growth and accomplishment. The subject of the biography is the institution, and it always holds centre stage. The purpose of such institutional histories is usually to show how the co-operative became large and successful: they are narratives of growth. Relatively few histories are written of failed co-operatives – a circumstance that is, from the scientific viewpoint, regrettable. Often it is co-operatives themselves who sponsor the writing of their histories.

Creation myths are essential to the cultures of co-operatives generally and of each of them in particular. Every history, however briefly told – even the single paragraph version in the annual report – embodies a creation story for the co-operative in question.

Co-operatives are often represented as self-sufficient structures created by individuals, working together to deal with specific market or social

problems. This is a modern, rational, instrumental and structural view. Writing on the basis of such a conceptualisation, writers usually stress pragmatic and material motives, the far-seeing rationality of the individuals involved, and the success of the co-operative as an autonomous, self-sufficient creation.

One of my colleagues at the Centre for the Study of Co-operatives, Murray Fulton, uses the diagrams on pages 25/26 to explain what he calls the “industrial” model of organisation that became common in the nineteenth and twentieth centuries, contrasted with the “network” model that appears to be becoming more significant today.<sup>3</sup> Conventional, institutional histories of co-operatives are essentially imposing the first model: the rational, self-contained, clearly bounded organisation. But where large numbers of co-operatives have formed in a particular region and era, I think the processes involved better

resemble the second diagram. Co-operatives form, and to some extent continue to exist, within networks of multipolar interaction, as constellations and coalitions of various groups and interests. It may be more complete to view them, especially in their formative stages, as parts of a web of social ideas and organisations, rather than as isolated and self-contained structures.

## Contextual Thinking

Co-operatives' stories are chosen and imagined in the light of a remembered present. This creates a kind of self-reference: co-operatives look at their pasts and see only those portions that reflect their present situations and characters; they use this imagined past to explain the present they are starting from. Co-operatives that may have been founded (let us say) primarily out of religious motives, but which are now largely secular, will depict the role of religion in their history as merely an aside, an oddity meriting no special attention. In doing this, they reflect their present character, but may fail to do justice to their origins; and may draw misleading conclusions about how co-operatives develop.

All history will be self-referential to a degree, but we can reduce the likelihood of misleading conclusions by opting for a wide view of history rather than a narrow one – by explicitly examining the broader context of past events. To depict the context of past events is to attempt to make a three-dimensional representation of the world the way people in the past experienced it: to take account of the

things that were influencing them, and of the relative importance and interaction of different influences.

This approach allows us as much as possible to get inside the mind or inside the experience of people of the past, while also analysing their world with the benefit of our vantage point in the present. To write the history of a popular, collective organisation like a co-operative, then, requires us to depict the world the way its founders, leaders and members knew it, insofar as we can do so.

To illustrate how different stories can be told about the same events, it is useful to analyse familiar examples. Among co-operators worldwide, the most familiar is surely the history of the Rochdale Pioneers of 1844. According to one common version, Rochdale was started by about 28 impoverished weavers who opened a tiny shop to supply themselves with the necessities of life.

From this modest beginning, a large modern co-operative grew. It grew because it started with the right spirit, or the right principles, or the right rules (according to various accounts): it could not help but grow, because its structure was sound; and the same is surely true for all co-operatives that accurately copy or update its formula. This is a version of the Rochdale story that stresses humble origins and correct rules. It is a myth, a useful myth and one that we should respect, because it stresses the self-help character of co-operatives. But it is also a limited representation.

Others have stressed that the Rochdale

Pioneers were by no means simple and impoverished weavers. The driving forces in the co-operative were Owenite activists, people with years of experience in the labour movement, in other organisations, and in social and political causes. Rochdale's leaders were ideologically motivated individuals who functioned within the networks and the common culture of a social movement. This ideology did not get in the way of their founding a practical, successful co-op: rather, it was their ideology that helped them see what needed doing and how to go about doing it. Rochdale is in fact inconceivable without the previous half-century of working-class activism, thought, organisation and experiment.<sup>4</sup>

Rather than stressing that Rochdale was started by 28 weavers (a social-economic category) who were poor (lacking economic resources), we should perhaps stress that it was started by ideologically motivated Owenite activists (a cultural-political category) who were rich in "social capital" – the ideas, networks and practical experiences that enabled them to get things done. Perhaps we should look at what factors, in the Rochdale environment, favoured their success; and the ways in which they were lucky rather than predetermined to succeed. To dwell on the connection between the co-operative and the surrounding society, culture and politics is to make a different kind of statement about what co-operatives are and where they come from.

While Rochdale was started in connection with a socialist labour movement, this is not by any means

where all co-operatives come from. There are many other kinds of social movements that have provided the context, the networks and the cultures within which large numbers of co-operatives were created.

## **Social Movements and Co-operatives**

There is a considerable literature, particularly in sociology, concerning social movements.<sup>5</sup> One definition of a social movement would be that it is a loosely organised effort by a broad group of people to change the culture of the dominant society. Usually social movements arise among groups that have been marginalised or excluded, likely because groups with ready access to power do not need to organise social movements to attain their objectives. Historical examples of social movements have included labour movements, farmers' and rural movements, religious and ethnic-nationalists, women's and temperance movements.

In developed countries, all these movements contributed to the formation of co-operatives, often in large numbers. Britain is one of many countries where labour movements were involved; Belgium, France, Germany after the 1890s, and Scandinavia also come to mind among others.

Farmers' movements in Germany and Denmark helped to create the first rural co-operatives, and farmers' movements as far afield as the United States, Canada, Australia, and many (indeed, most) other developed countries helped to spread them. These

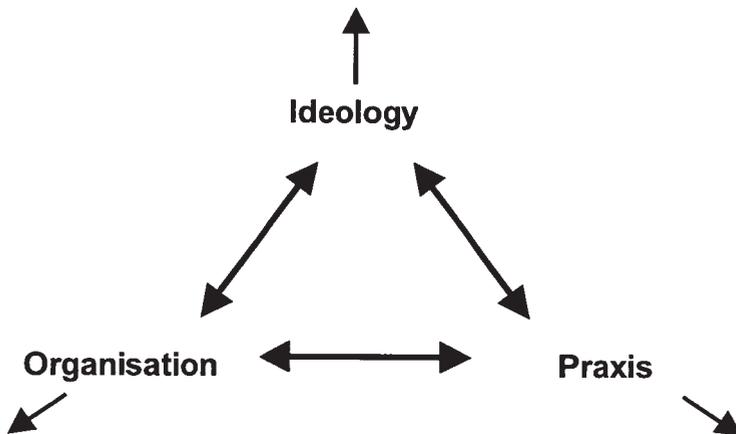
movements were based on agricultural associations, interest groups and their ideas. Elsewhere, rural social movements were built around interests broader than agriculture alone. Horace Plunkett's rural-development programme in Ireland combined adult education and "better living" with better agriculture. A classic model would be the Antigonish adult-education movement in Nova Scotia, Canada, which spawned numerous credit unions and agricultural and fishing co-operatives in the 1930s.

Many co-operative movements have been inspired, at least in part, by social Catholicism and other religious movements. Other co-operatives were created by nationalist movements among subject populations, notably in Finland, Poland and other parts of eastern Europe before the First World

War. Both religious and nationalist dynamics were involved in the development of the Mondragón co-operatives in the Basque region of Spain. Women's movements contributed heavily to consumer co-operatives through the women's co-operative guilds beginning in the nineteenth century. Temperance movements, while less involved in co-operatives, were nevertheless connected: there were temperance advocates among the original Rochdale Pioneers.

These brief references are sufficient to indicate that many of the developed countries' most important co-operative sectors were formed in the context of social movements. It is relevant and important to consider more specifically the ways in which the co-operatives were connected to the various social movements.

**Figure 1. Develtere's Social-Movement Model<sup>6</sup>**



## Social-Movement Models

One useful model of a social movement – advanced by Patrick Develtere – is that it is a composite phenomenon that includes three main components. There is, first, an ideology, which presents both a vision of a desired society based on particular values, and a proposed means to achieve this desired society. This is accompanied by a praxis or method of action that is used to mobilise a membership base and to facilitate participation. Social movements could theoretically exist with only a common ideology and a praxis for involving people in it; this would resemble a kind of spontaneous, unstructured voluntarism. In reality, all social movements create organisations of some kind in order to concentrate and manage resources.

Develtere sees these components as existing in a kind of “push-and-pull” relationship with one another, in which, at any given time for any given movement, one of the elements might be much more prominent than the others. According to Develtere, there are “centrifugal tendencies inherent to all social movements,” in which ideological purists, member-oriented activists and organisational managers all try to pull the movement in their own directions. But at the same time, each to some extent requires the others. “The way these three components interact ... creates the ‘identity’ of a social movement”.<sup>7</sup>

Such a view leads Develtere to assert, “A definition of co-operative movements ... could be: co-operative movements are social movements which use some form of economic co-

operation (organisation) to the benefit of and with the involvement of the social group concerned (praxis) in order to defend the interests of the group which are considered endangered if the members would not react co-operatively (ideology).”<sup>8</sup>

Therefore, co-operatives can only be understood in connection with the ideologies and social milieux/social praxis in which they are embedded – especially in their formative periods.

What would it mean to co-operative history if co-operatives were conceptualised more rigorously in relation to wider social movements? Clearly one effect would be to stress culture, language, politics and ideas (also religion, at least for the period up to the mid-twentieth century) more than is common in institutional histories – the ideology, not only of co-operatives, but of the connected and wider movements. Another would be to draw greater attention to what is commonly called co-operative education: the praxis of the movement, the formal and informal ways in which members are recruited, informed, educated and involved. This would inevitably mean going farther in the direction of social and cultural history, with all the usual problems of finding sources to document informal interactions among people. Undoubtedly some of the techniques and approaches of social and cultural history would be required as well, such as reading against the grain (or between the lines) of official accounts, analysing language and text, using personal and exceptional cases to illuminate structures that were usually hidden, imagining the ways in which

power disparities were confronted (the “weapons of the weak,” in James Scott’s memorable phrase), and unpacking the values and behaviours that made up a “moral economy” among the participating people (to quote both E.P. Thompson and, again, Scott).<sup>9</sup>

At the same time, this does not change the fact that co-operatives are enterprises that relate primarily in economic ways to their members. What it changes is how we view the setting in which these enterprises function, the motivations of their founding members and – especially – the ways in which they are formed and renewed.

## **New Social Movements and Co-ops**

The preceding remarks about the history of co-operatives and social movements refer primarily to the formative eras of large co-operative movements in developed countries: for the most part, this means the period from the middle of the nineteenth to the middle of the twentieth centuries.

Since the 1970s there has been considerable discussion of “new social movements” and the ways in which these differ from classic social movements such as the old labour and farm movements. According to some, new social movements such as citizens’ movements, antipoverty and anti-racism movements, the environmental movement, the contemporary women’s movement, and others, differ from the older social movements in that they focus on cultural politics rather than on the state, are informal

and anti-bureaucratic, and are largely based on the middle class. In the words of Jürgen Habermas, these movements defend collective identities against the “rationalisation of everyday life.”<sup>10</sup>

If Habermas and others are right, twenty-first century social movements may have less need of co-operative institutions than did their predecessors; or perhaps co-operatives will have to be re-invented in more flexible and spontaneous forms. Could this in fact be what has been happening in France, Italy, and other countries with the development of the social economy, of new forms of co-operatives, mutuals, non-profits and mixed organisations? On the other hand, it is possible to have some doubts about how new the new movements really are: perhaps the institutional characteristics of old social movements like the labour movement (or co-operative movements) have been exaggerated in retrospect, and their dynamic cultural dimensions overlooked.<sup>11</sup> Cultural struggles, informal and spontaneous action may have been fully a part of the social movements that formed co-operatives a century ago; and co-operatives may be every bit as relevant to new social movements as they once were to old ones. Either way, co-operatives and those who would like to develop them should be paying close attention to compatible social movements. Perhaps the linkage with such social movements is the way to create new co-operatives, or to revitalise and renew existing ones.

## **Conclusion**

To model co-operatives in our minds

as parts of social movements is one aspect of what I would call a complex-systems view of co-operatives: a way of thinking that sees institutions not as rigid and autonomous structures, but as flexible and evolving components within wider social, cultural, political and economic systems. There are many other aspects to such a complex-systems view.<sup>12</sup> The key element, however, is the stress on dynamic relationships and interrelationships rather than on fixed structures. One step in this direction is to move from a purely institutional view of co-operatives to an institution-within-a-movement view like Develtere's – a view that stresses wider ideology and praxis and that relativises the co-operative's independence from its surroundings. For social-economic entities like co-operatives, the stress on relationships, context, ideas and behaviour involves a stress on culture: the culture of co-operatives and of their movements.

I see all this as being quite different from great-men accounts of history and from what I have called institutional biography: the life stories of institutions. But a person could legitimately ask whether all this is of more than academic significance. Does it really matter whether, particularly, popular and vulgarised and textbook accounts of co-operation accurately depict the complex relationships of co-operatives to historical movements?

To answer that, let me return to Develtere. Develtere is not a historian,

but rather (apart from being an academic) has been heavily involved in overseas development work. His interest in the social-movement aspects of co-operatives arose from the massive failures of co-operatives in the developing world in the last half-century, failures that have convinced many development workers and theorists that co-operatives are ineffective. According to Develtere, the problem lay in the misunderstanding, on the part of international development organisations and their staffs, of the history of successful co-operative movements in developed countries. Those responsible tried to promote the development of co-operatives, but they failed to promote the development of social movements. The result was co-operatives without sustaining ideology or praxis, co-operatives that were quickly institutionalised, bureaucratised and controlled by governments or élites, or which simply failed. In short, according to Develtere, many co-operative development projects failed because those responsible for conceiving them had told themselves inappropriate stories about the past. By contrast (Develtere argues) worldwide trends of deregulation, privatisation and decreased government involvement may provide the space for more authentic social movements and more authentic co-operatives in many countries.

Which history we choose to tell does make a difference. □

## NOTES

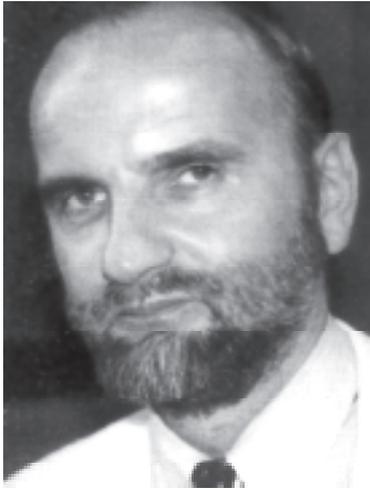
1. This is, of course, Patrick Develtere's thesis: see Develtere, *Économie sociale et développement. Les coopératives, mutuelles et associations dans les pays en développement* (Paris: De Boeck, 1998); Develtere, *Co-operation and Development* (Leuven: ACCO, 1994); Develtere, "From Sectors to Movements in the South," *Review of International Co-operation* 86, 1 (1993), pp. 73-81; Develtere, *Co-operative Development: Towards a Social Movement Perspective* (Saskatoon: Centre for the Study of Co-operatives Occasional Paper #92-03, 1992). My article is greatly indebted to Develtere's work in this area.
2. Cited by E.H. Carr, *What is History?* (Harmondsworth: Penguin, 1964), p. 123.
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6. From Develtere, *Co-operative Development*. Develtere based this model on the earlier work of E. Gerard and A. Martens on the co-operatives of the Belgian labour movement.
7. Develtere, *Co-operatives and Development*, pp. 21-2.
8. Develtere, *Co-operatives and Development*, p. 27, and p. 28 for the following.
9. Thompson, 1980; James C. Scott, *Weapons of the Weak: Everyday Forms of Peasant Resistance* (New Haven: Yale University Press, 1985); Scott, *The Moral Economy of the Peasant: Rebellion and Subsistence in Southeast Asia* (New Haven: Yale University Press, 1976).

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11. See, again, Weir.
12. For an explanation of complex systems, see Fritjof Capra, *The Web of Life: A New Scientific Understanding of Living Systems* (New York: Doubleday, 1997); also Fairbairn and Fulton (previously cited) and the other works referenced there. For an attempt to apply some of these ideas to co-operatives: Brett Fairbairn, "Constructing an Alternative Language for Co-operative Growth: An Ecological Metaphor," *Coopératives et Développement* 27,1-2 (1995-1996), pp. 77-103; and "History from the Ecological Perspective: Gaia Theory and the Problem of Co-operatives in Turn-of-the-Century Germany," *American Historical Review*, October 1994, pp. 1203-39.

# Preconditions for Successful Co-operative Ventures in the Light of Historical Evidence

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by Johann Brazda and Robert Schediwy\*



Today Charles Gide's famous thought often comes to mind: namely that the continuance of the co-operative idea does not rely on co-operatives living forever but on being reborn time and again. The idea of a "life-cycle" for co-operatives has become tempting again. It should be studied with detachment, however, and should not be burdened with value-loaded terms like "degeneration" (Meister, 1973). There is no single "ideal state" for a co-

operative, such as one of "perfect democracy" or "economic well-being". Empirical evidence seems to suggest that there are typical stages of co-operative development that follow a kind of "inner logic".

There are conditions for successful "foundation waves" of co-operatives (or "co-operative revolutions") as well as for successful "normal co-operative development" (to use an analogy with Thomas Kuhn's famous concepts of scientific development). But there are also certain patterns for economic failure and/or transformation into other forms of economic activity. This paper wants to stimulate discussion on the topic of the historical preconditions

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of co-operative success by presenting a number of (potentially falsifiable) hypotheses. They are mainly based on our work on consumer and credit co-operatives (Brazda/Schediwy 1989, Brazda/Schediwy/Todev 1997).

We distinguish between foundation and continuation because there are obviously distinctive periods in modern history in which the otherwise rare economic flower of co-operatives starts to bloom extensively in what seemed to be a desert. And there are other periods in which the existing population of co-operatives regroups, grows in societal importance (if not in number), and periods of co-operative decay. To simplify matters we would like to propose that the notion of “successful” be interpreted here in terms of simple economic survival. A criterion for successful foundation could, for example, be institutional survival for an initial five-year period; for successful continuation, survival for a 30-year period. In both cases the integration (merger) into another co-operative of a similar kind should be placed under the category of “survival” (even though mergers are often the result of deep economic crisis for at least one partner). One could, of course, introduce activity parameters such as turnover, number of members or employment in order to mirror growth. Here, however, we would simply like to formulate hypotheses on the basis of non-formalised evidence.

## **A. Co-operative Foundations**

Co-operatives are often founded as a mass phenomenon during periods of want, social crisis and group antagonisms (Müller 1976, 6; Von

Brentano 1980, 103). There seem to be decisive environmental factors:

### **Societal preconditions**

- 1) Co-operative formation is an act of grass-roots collective mobilisation. Co-operative formation “from above”, i.e. by fiat of authority, usually fails to bring about “real” co-operatives but rather “lifeless” pseudo co-operatives. Policies of favouring co-operative formation (e.g. government aid for Raiffeisen co-operatives around 1890) can however sometimes favour authentic grass-roots movements.
- 2) Grass-roots mobilisation can only take place under a minimum of guaranteed civil liberties. It is excluded by severe political oppression – but favoured by its end, in which collective counter-mobilisation and latent democratic spirit often break free.
- 3) Processes of societal change, in which larger segments of society experience a drastic reduction of their relative economic and social position and/or wish to reaffirm it, appear to be favourable to co-operative formation.

This is a complicated matter: we are used to saying “co-operatives are the children of want”, and we know that Schulze-Delitzsch as well as Raiffeisen devised their co-operative systems for artisans and peasants whom they saw justifiably as “victims” of the industrial revolution and of rural usury. On the other hand, the surge of consumer co-operatives around 1890 to 1910 was the result of collective mobilisation of a “group in ascension”, i.e. the industrial workers’ class that simultaneously

developed its two other powerful tools: the unions and their political parties.

4) A related but somewhat less complex assertion would be that successful co-operative formation usually takes place in a period of group antagonisms.

Such antagonisms, the existence of “enemies” or a common threat from the outside, increase group cohesion (Fürstenberg 1971, 50). The chances of successful collective action in the economic field are greatly enhanced by a zeitgeist that favours “We” against “Them” feelings, whereas periods of economic affluence and reduced societal tensions tend to favour individualism and a reduction of the “co-operative spirit” (Müller 1976, 98).

This is a touchy subject because we are all aware of the Rochdale principle of religious and political neutrality, and there is a certain reluctance to admit that the impulse for co-operative formation often appears to be quite different. However, an honest look at history reveals that successful foundation as well as continuation of co-operatives is very often intimately tied to conflictual collective mobilisation drives.

Examples abound (Schediwiy 1993): Slavs against Germans (in the old Habsburg empire), Finns against Russification drives of the Czarist governments around 1900, French Canadians against “Anglos” (in the case of the Caisses Desjardin), Basques against the Spanish Central government (in the case of the Mondragon cluster of co-operatives). The workers’ movement, a great creator of co-operatives around 1900,

also saw itself – in a quasi-religious way – as a “counter culture” with a spirit of “Us against Capitalism”.

An excess of “group spirit” and political motivation can, however, be detrimental for the economic survival of co-operatives. For example, we find worker co-operatives often financially bled to death by aid to striking workers or by an administration of funds based on mainly political motives. The neutrality principle was probably also advocated as a pragmatic antidote by co-operative managers against their fiery ideologues and may have played a role as a continuation factor.

In the foundation phase, antagonistic group mobilisation must nevertheless be credited as being a decisive spur for successful co-operative formation. Collective mobilisation would not be effective as an instrument of institution building, however, if there were not something visibly to be gained by co-operative formation. Imperfect competition and monopolistic practices greatly enhance the desire for co-operative action – but this desire can only be fulfilled under rather specific circumstances.

Our central thesis thus would read as follows: An ideal situation for co-operative formation appears to be one where 20 to 50 people working together with little capital (but possibly with specialised knowledge) can achieve sizeable advantages in the purchase or production of goods and services. The early attainability of economies of scale is thus an essential precondition of co-operative success in the formation phase – from the first sack of flour (or seed) bought together

to the formation of a children's group. The immediate advantage to be gained may be quantitative and/or qualitative. Trust may be a decisive factor, as for example W. Grosskopf has pointed out at length (Grosskopf 1990, 153) – i.e. the founders of alternative schools often simply do not trust the state (or a “for profit”) system, and with all the abuses of 19th century groceries (diluted milk, etc) high ethical standards of co-operatives represented an important non-monetary advantage. In the terminology of New Institutional Economics the climate of trust existing in a co-operative “We-group” greatly reduces transaction costs, because in this highly solidaristic quasi-family context, “opportunistic” behaviour is supposed to be much less probable than in the outside world. (This holds at least ideally. In reality, fraudulent behaviour seems to have been not too infrequent, especially during formation waves, when literacy was still low and co-operators had to put too much trust in their – often also inexperienced – administrators).

## **B. Established Co-operatives**

Success in established co-operatives has to be analysed differently. Survival here seems to engender necessarily certain changes which, again, should not be interpreted in all too value-loaded terms. The phase of initial enthusiasm of members and management (with its high emotional mobilisation and “trust factor”) obviously has to cool down in a natural process according to a Max Weberian “bureaucratisation of charisma”. After the initial isolated flowering of co-

operatives, networks and larger structures have to form in order to reap bigger economies of scale (but mergers and the development of federative units often tend to favour quasi-hierarchical institutions).

We have developed a life-cycle pattern of co-operative organisation (Brazda/Schediwy 1994) whose main advantage is that no “blame” has to be put on anybody, and no implicit “conspiracy theories” have to be formulated (for example, about authoritarian, power-greedy management, lazy members etc.). We postulate a quasi-natural process.

For decades after the initial blooming of the foundation phase, co-operatives may offer advantageous services – in quantitative as well as qualitative terms. As long as they do so, they will be appreciated by their members. If, however, they fall behind their market competitors, member loyalty will not save them – not in the least, as emotional loyalty seems to be only partially transmittable over the generations.

In fact, co-operative leaders placing too much faith in established member loyalties while falling behind in efficiency may soon discover that member fidelity can evaporate very suddenly – especially when members' financial involvement (i.e. share ownership) is low (Brazda/Schediwy 1989, see specifically the crisis of the French consumer co-operatives, 721). In this context, relatively large member shareholdings appear to be among the most important aspects in keeping members interested in “their” co-operative, thus reducing the danger

of what the French call “banalisation” of co-operatives.

Intellectual nostalgia for the initial (often rather chaotic) foundation phase of a co-operative should in any case not be exaggerated.

For a co-operative to become established as a long-term economic institution, it has to overcome the initial phase in which its fate is largely determined by the enthusiasm and often self-exploitation of a few founding fathers (and mothers). If sizeable advantages for members are to be attained, this initial phase has to stop. Paid personnel has to be hired. Highly motivated managers often carry the idealistic spirit of the founding phase right through their working lives. (Touching examples of this spirit can be found, for example, in the world of consumer co-operative leaders between 1914 and about 1960, such as Albin Johansson, Paul Thiriet, Otto Sagmeister etc.). The establishment of a network of similar co-operatives can create higher member benefits and enhance the spirit of belonging to a “movement”.

However, networking often means merging, and merging means bureaucratic growth – and increased distance between management and members. Often, co-operative networks that succeed in creating growth while keeping up the “we” feeling of a small “community-co-op” seem to do particularly well. But “staying true to the original co-operative spirit” often means early decay: the first health food stores (often co-operatives) could be started in cheap premises; today if they still

look as they did 20 years ago, they will have difficulty competing with the glossy health food chain store on the corner.

In general, those co-operatives that stay successful for decades seem to thrive in markets with imperfect competition and high mark-ups, such as the pharmacy market. There they act as the heralds of market competition. Economic spheres with very high levels of competition seem, on the other hand, more testing for co-operatives.

This has been the case for normal retailing since about 1970, and, following liberalisation, it is now also the situation in the agro food business. The most important problem of a “mature” co-operative seems to be the continuation of an effective and yet co-operatively minded management, especially after the retirement of the generation of charismatic leaders still marked by the idealism of the foundation phase.

Empirical evidence suggests that the most successful “mature” co-operatives (with regard to the survival and growth criteria) are the ones –

- 1) Based on broad (ethnic, class or religious) group solidarity;
- 2) Often managed in a “benevolent authoritarian way” by charismatic leaders acting as “social entrepreneurs”, who may transmit their authority to the next (elected) “adoptive emperor”;
- 3) With relatively large member shareholdings making for higher interest by members.

Some authors specifically stress the

necessity of a well functioning member democracy (see International Joint Project on Co-operative Democracy 1995 and specifically Pestoff 1991). But this aspect should not be exaggerated. Already during the foundation phase (in credit as well as consumer co-operatives), the aspect of able and efficient leadership appears to be more decisive for survival than the democratic aspect.

Of course, these leaders are able to perform their task in an atmosphere of trust and democratic consensus. But it is their input that usually makes the fledgling co-operative function and not the ballot box. Equally, co-operatives in trouble are not usually saved from economic perdition by member democracy but by a new, energetic leadership in whom the members can put renewed trust. There are even a number of instances where “politicking” inside co-operative organisations has proved far from beneficial, even though elections may have become more “interesting” (see for example the political dissensions inside the Finnish E-movement – Ilmonen 1986).

Instead of creating myths or looking for culprits, we should look at transformation processes in a more detached way. In one of the most impressive papers of ICA’s Research Group conference in Oslo, Michal Palgi’s quantitative analysis of privatisation in the Kibbutz movement validated the hypothesis that a weakening of collective ideology played a more important part in the Kibbutz processes of change than economic reasons – thus siding with

Meister against Williamson (Palgi, 2000). It underlines that the “clan”, “commune” or “co-operation model” (Ouchi 1980, Butler 1981, Powell 1990, Rosner and Getz 1996), may be somewhat less stable than the “market model” or the hierarchy model, as it is based on a special type of collective enthusiasm that is hardly transferable over the generations.

We fully agree. Thirty years ago an outside visitor could already observe certain divisions between the “founder generation” who had collectively cultivated the desert in a hostile environment, and the “Sabra” generation reaping the achievements of their parents while slightly resenting the highly regulated (if democratic) Kibbutz “rationing system”.

Individualistic desires such as “to travel and see the world” became very prominent then among the young Kibbutz generation. This process has obviously been continuing. The “outside” consumer society attracts the young ones. “Privatisation” comes as a quasi-natural process, which needs no “villains” to work. We can still admire the co-operative pioneer generation of the Kibbutz while admitting that the following generations have a legitimate right to see things differently or to reduce their scope of co-operation. The same holds for other co-operative organisations.

In recent decades we have had to face the fact that whole co-operative movements have disappeared from the scene, but this does not mean that they were not for a very long time truly successful; that they generated

benefits for their members and created jobs; and that they contributed to the innovations inside their industry. One should not just look at the end.

A human life, seen from this point of view, would always appear to be a tragedy. Yet that is not the right

perspective, because new generations will take up the endeavour. Likewise, the co-operative spirit does not die and will create new – temporary – success stories, even though individual co-operatives may have only a limited life expectancy.

LIFE CYCLE OF A FEDERATIVE MOVEMENT	
1) FOUNDATION PHASE (generalised activity seeking a “centre”) 2) PHASE OF SELF-ASSERTION (with centre as focus in conflicts with outside world) 3) CONSOLIDATION PHASE (with level of success dependent on rallying activism of centre)	IDEOLOGICAL OR CHARISMATIC MOVEMENT, AUTHENTIC SECTOR SOLIDARITY
4) HIDDEN PLURICENTRISM (via regional mergers - attempts of centre to counter by unification proposals and reinforcement of its authority often fail) 5) INTERNAL STRIFE (conflicts of interest between central and regional actors, inter-regional conflicts - accentuated by economic difficulties)	BUREAUCRATISATION, IDEOLOGICAL “COOLING-OFF PERIOD”, IMPOSED SECTOR SOLIDARITY
6) OPEN PLURICENTRISM (with centre in danger of becoming subsidiarised via concentration of ownership) or SUPER MERGER (when most actors are too weak economically to pursue independent strategies) 7) ESTABLISHMENT OF ONE OR SEVERAL HIERARCHICAL STRUCTURES (instead of federation) and/or LOOSE CO-OPERATION ON MARKET TERMS	DOMINANCE OF BUSINESS LOGIC, PARTNERS IN MOVEMENT COMPARE ITS SERVICES TO MARKET PRICES, BREAKDOWN OF SOLIDARITY

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# Edgar Parnell's Prayer: An Australian View

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by Gary Lewis\*

In the early 1990s the distinguished UK co-operative analyst and commentator Edgar Parnell, whose work has been seminal in re-inventing co-operatives, penned a Prayer for Co-operatives. Parnell's prayer asked God to save co-operatives from misguided or unscrupulous academics (first on the list), professionals, advisers, managers, politicians, governments, dogmatists and investors, and to help co-operatives deliver benefits to members without transgressing the rights of those "outwith" the co-operative. It hit a chord in Australia at the time, where cynicism is a national pastime.

My purpose is to explore some of the issues raised by Parnell in his prescient and witty piece in the context of recent events in Australian co-operatives' history, specifically New South Wales 1985-2000. Discussion is of an exploratory nature, drawing upon work in progress for my forthcoming



book *Australian Co-operatives in the Twentieth Century*. It is not intended as a critique of Edgar Parnell's ideas, for which the present writer has high regard, nor of the prayer itself, which has been employed simply as a unifying motif in research.

The period saw profound change convulse the Australian co-operative movement, wrecking much of it and changing the nature of co-operation forever. This was attended by a conceptual shift in thinking from structural "co-operatives" to generic "co-operation" in the broader context of a social economy. It is timely, therefore, to consider a new prayer for co-operation, matching this paradigm shift.

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## Edgar Parnell's Prayer for Co-operatives

### God save Co-operatives:

Keep them from –

The *Academics* who wish to pull them apart to see how they work;

The *Professionals* who believe that nothing can be achieved by ordinary men and women;

The *Advisers* who never tire of finding new problems but never have time to solve any;

The *Managers* who want a Co-operative to work for them rather than them to work for it;

The *Politicians* who seek to use the Co-operatives as their stepping stone to power;

The *Governments* that will bury them in bureaucracy;

The *Pedlars of Dogma* who try to make them fit their view of the world and will not accept Co-operatives as economic enterprises;

The *Investors* who would take them over and cash in their assets;

*Help them to deliver benefits* working in the interests of their members without transgressing the rights of those outwith the Co-operative.

First on Parnell's list of "doubtful" types are academics, who allegedly pull co-operatives apart to see how they work and leave it at that without making any further practical contribution. The reader is free to assess the merits of this judgement in evaluating the present paper. Perhaps Parnell noticed public moneys pouring into tertiary institutions ostensibly for cooperative research but principally serving academic careers. This has happened in Australia, but the real problem has been the patchy and esoteric nature of research in the

field outside the concerns of primary industry. The Australian Centre for Co-operatives Research and Development (ACCORD), which was formed in 1999 as a joint initiative of the New South Wales Government, the University of Technology, Sydney, and Charles Sturt University, Bathurst, presents the best opportunity yet to rectify this. At any rate, dissecting co-operatives to see how they work, especially if they are not working, may be useful *post mortem* and in the view of the present writer is a legitimate function of the historian.

Parnell's prayer seeks salvation from professionals who believe that nothing can be achieved by ordinary men and women. Compelling as this emotive idea is, the complexity of regulatory, legal and technical frameworks affecting co-operatives in Australia recently has necessarily driven co-operators and aspirant co-operators deeper into the arms of consultants and technocrats.

It is a moot point whether professionals or "ordinary men and women" shirking self-help responsibilities were more culpable, but the former certainly materially benefited. The only antidote – simple, user-friendly consistent national legislation for co-operatives – remains elusive and requires a prayer of its own.

Parnell alludes to advisers, who never tire of finding new problems but never have time to solve any. Certainly, providing sophisticated advice, especially to a few powerful co-operatives, was a growth industry in the period, but advisers are not by definition problem-solvers or decision-makers – those are properly the functions of co-operatives themselves.

The problem was the incestuous nature of the advice, where a few management consultancy firms simultaneously advised governments on running a nation, political parties on policy platforms, departments on managing change, regulators on negotiating reform and co-operatives on improving business performance. Apart from obvious conflict of interest issues, the inbred nature of advice and the corporate world-view it confirmed

produced an appalling homogeneity of ideas often irrelevant to co-operatives in the inhospitable market-driven environment in which they functioned.

Australian co-operatives' history is littered with managers who have made co-operatives work for them, rather than the other way around. Classic cases are managers driving growth and diluting the democratic base while demanding commensurate executive rewards, or engineering events to produce a demutualisation windfall for insiders. There are also many cases of ethical managers, genuinely committed to serving members' interests, who have led co-operatives into oblivion through blind faith in the "cause". Finally, managers are only as good as co-operatives make them.

Few politicians used co-operatives as a stepping stone to power in the period, for that would have been like launching one's campaign on the *Titanic*. A few did play the co-operative "card" for targeted electoral purposes but more were brought undone through association with co-operative disasters and grew chary of things "co-operative". More commonly, economically powerful co-operatives cleverly manipulated the political process to achieve "back-door" protection in rapidly deregulating markets and exposure to superior competition. There was political sloganeering and rhetoric about a "Third Way", allegedly heralding a renaissance of community values and social responsibility in which co-operatives had a role to play. Time will

tell if this was merely a new spin on old ideas to mollify voters disaffected by the extremes of economic rationalism or the real dawning of a revitalised civil society.

Responsibility for regulating co-operatives in the period churned through departments like worms through a compost heap. Approximately eleven ministers had responsibility for co-operatives, mostly short term. Administering the co-operative movement was an educational toy for the acquisition of ministerial skills on a political carousel. The Registry of Co-operative Societies was periodically expanded, contracted, reviewed, restructured, re-tasked or buried in a “whole of government” approach, a nice pun for the disappearance of co-operatives up an administration’s fundamental orifice. Thoroughly creatures of statute and sensitive to change in government supports, co-operative development fluctuated inversely as “hot and cold” political capriciousness.

The experience confirmed what old Rochdale activists knew but our generation forgot: that co-operatives require, and deserve, as much support from government as is warranted by the contribution they make to the economic and social welfare of society. Why otherwise would they qualify for special taxation consideration? Governments are required to listen reasonably to co-operatives in developing public policy and to assist them achieve their goals along with other constituencies in a pluralistic system. But what if the co-operatives are not talking to government, or to

each other, or talking in a garbled voice, or if only a few politically powerful co-operatives can be heard? Governments are not so subtle as not to listen only to the most vocal and powerful players and to shape policies in their image. The economic preoccupations of hard-pressed agricultural co-operatives in pursuit of growth and market share in a period of intensifying competition set the shape of the overall movement, arguably retarding more general growth by skewing public policy and siphoning scarce resources in the farmers’ direction. But governments can’t be blamed for that. Where public policy is concerned, co-operatives get exactly what they deserve if they fail to properly shape it.

Rather than swarming bureaucracies, as such, the problem in Australia was that there were *too many* governments administering a plethora of legislation and unable to agree upon a uniform code. Differing codes permitted co-operative activities in some jurisdictions, which were not permitted in others. This saw a stand-off develop between “states righters” in the movement and the impeding of efforts by co-operatives to compete on an equal footing with interstate competitors (co-operative and non co-operative) and to optimise efficiencies at national level or capture international opportunities.

### **Left to Rot**

Powerful sections of the movement, wrestling with potentially lethal industry problems, failed to give administrations clear signals in seeking to unravel a mesh of states’

law, a century in the making. Indeed, some were not averse to the status quo. The tragedy was that state-based co-operative federations rarely spoke as one to federal government as governments periodically canvassed the co-operative option in deregulatory programmes, stymied by legislative incompatibilities and interstate rivalries. Some administrations understandably came to see Efficiency, and marginalised them in policy debates. That was not burying co-operatives in bureaucracy; it was simply leaving them to rot in an administrative “too hard” basket largely of their own making.

Who were the pedlars of dogma in the period seeking to make co-operatives fit their view of the world, as mentioned by Parnell? Certainly they were not those few fading souls on the margins who saw co-operatives as an embodiment of dual economic *and* social imperatives and prone to failure in the absence of one element, and who perceived co-operatives as socially responsible vehicles acting for community development and not simply economic objectives. The dogmatists must have been those economic rationalists who locked co-operatives in an “economic enterprise” box and dismissed social responsibility as “ideological” or “woolly headed”, a reincarnation of those hard-nosed pragmatists who had crushed co-operative idealism and led the Rochdale consumer movement to near extinction in Australia in the sixties.

There have always been investors motivated to take over co-operatives

and cash in on their assets. This period was no different. The usual opportunistic band of “white knights” and “cowboys” trawled the co-operative movement, assuming the role of “lost leader”, extolling the virtues of co-operatives while demanding a radical overhaul of their structure in the interests of investors. Fund raising in pursuit of growth and market share was the battle cry while the biggest fire sale of public and co-operative assets in Australian history proceeded, driven by governments of all hues and fuelled by a new “shareholder” mentality demanding instant financial reward. Investors, including “dries” legitimated by legal loopholes, demanded more than simply cost-effective services from co-operatives.

A new generation of primary producers, whether legatees of co-operatively produced wealth or a new breed of agri-businessmen and women with no allegiance to anything above the bottom line, saw co-operatives as archaic, even irrelevant. The task was to woo investors and “grow” the industry and to the degree that co-operatives or hybrid variations served this purpose, “co-operative philosophy” was endorsed. Taxpayers, who were also investors in co-operatives through their stakeholding in government development programmes and favourable taxation treatment for co-operatives, looked for public benefit and the “social dividend” and found scant evidence, notwithstanding much rhetoric to the contrary. Big, trading co-operatives, ruled by economic imperatives,

behaved just like capitalist rivals. Why would taxpayers be concerned if private investors assumed the burden of financially sustaining co-operatives and governments retired from the field?

## Byzantine Panoply

Somewhere within this Byzantine politico-economic panoply lay the “movement”, millions of people in heterogeneous co-operatives delivering benefits to themselves and, theoretically, to fellow members and the community. The extent to which they achieved this without transgressing the rights of those “outwith”, as Parnell’s prayer hopes, was however problematical. Co-operatives never have functioned in a void. What co-operatives do inevitably impacts upon the community and not always benignly. For instance, without decrying their economic contribution and importance to rural economies, how can agricultural co-operatives operating in industries where current farming practices degrade the environment not transgress the rights of those “outwith”? How can an organisation open only to anyone who

can benefit from its services not by definition be exclusive? How could countless, diverse small co-operatives with most of the co-operative population – the movement’s future – be allowed to drift bereft of movement leadership and institutional support while the needs of a few powerful co-operatives were indulged? Perhaps the question is not so much hoping that co-operatives do not transgress the rights of others – an essentially negative and elitist concept – but asking God to help co-operatives actually to *affirm* the rights of those “outwith”. Wasn’t that why co-operatives were invented as distinct from profit-oriented business?

Meditating on recent events in New South Wales’ co-operatives history, the outline of a new prayer emerges, little more than a five o’clock shadow on the worn face of work in progress. In this is replaced by allusions to the generic “co-operation”, contemplated as an “impulse” in a post-modern society where outcomes are rather more important than theory or structure.

Employing Parnell’s typology, our evolving prayer seeks *co-operation*’s salvation from:

- Academics* who consign co-operation to the footnotes of history;
- Professionals* who know all there is to know about co-operatives and nothing about co-operation;
- Advisers* who imagine co-operation dwells in statute;
- Managers* who think co-operation is like ego – bigger is better;
- Politicians* who flick co-operation into the “too hard” basket;
- Governments* who cut co-operation to suit ideological suits;
- Pedlars of dogma* who confine co-operation to economic enterprise;
- and

*Investors* who suppose money is more important than democracy. Additional *dramatis personae* might enter our prayer with such likely candidates as:

*Co-operative members* who muddle self-interest with self-help;

*Co-operative leaders* who manipulate apex bodies to serve vested interests;

*Bureaucrats* compromised by job insecurity or ambition from issuing fearless advice;

*Regulators* who believe serving the public responsibly means never trusting them;

*Opportunists* who transmogrify from (say) accountant, to management consultant, to director, to wealthy investor-shareholder of a former co-operative;

*Agri-business* which exploits co-operation expediently as a bastion of protectionism; and

*The media* who portray co-operation as a freak sideshow at the only circus in town: international corporate capitalism.

Rather than appealing for *principles* to be applied in *structures* known as co-operatives, our new prayer emphasises *people* and the impulse to co-operate for their own and others' sakes. It asks God to help *co-operators* to join together voluntarily and make decisions democratically, to share outcomes equitably, and to help each other and kindred groups in caring for the community and the environment. It

utters the heresies that this need not be confined to co-operatives; that co-operatives and co-operation are often antithetical; that big is not always better though small and numerous may be; and that a movement without movement is no movement at all. It is moribund. Our new prayer ends with an impassioned plea for an Act of God to resurrect the best idea humanity has ever had – co-operation! Pray hard. □

# 'Internal' and 'External' Principles

## Inward versus Outward Orientation in Co-operatives<sup>+</sup>

by Yair Levi\*

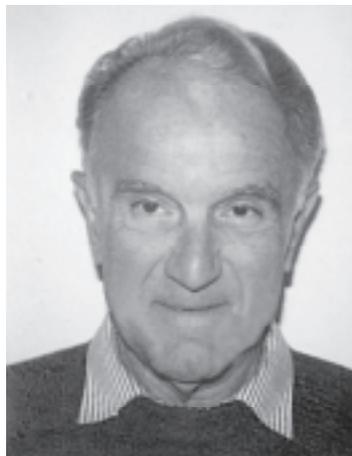
### Abstract

*The distinction between "internal" and "internal and external" principles is inherent in the recent ICA Statement on Co-operative Identity. This distinction, in a way, suggests a shift towards a more outward oriented policy in co-operatives. The seventh and last principle (Concern for Community) is of particular interest as it opens new avenues beyond the traditional realm of member servicing. This article briefly reviews the historical debates on the inward-economic versus outward-community orientation of co-operatives and examines how the new trends beyond the historical "member-user" identification are related to the shift from the traditional single-stakeholder to the newly emergent multi-stakeholder co-operative.*

### Constitutive Elements of Co-operatives

Let us start with the Law First, i.e. the

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preamble to the Statutes of the historical Rochdale Society (1844-1845) followed by the co-operative definition, values and principles as recently stated by the ICA (1995). The latter would remain detached from their historical and ideological context without the Law First.

### The Law First

"The objects and plans of this Society are to form arrangements for the pecuniary benefit, and the improvement of the social and domestic condition of its members, by raising a sufficient amount of capital in shares of one pound each, to bring

<sup>+</sup> Revised version of a paper presented at the First Asian Co-operative Conference, Singapore, 24-25 June 2000.

into operation the following plans and arrangements:

1. The establishment of a store for the sale of provisions and clothing, etc.;
2. The building, purchasing or erecting a number of houses, in which those members desiring to assist each other in improving their domestic and social condition may reside;
3. To commence the manufacture of such articles as the society may determine upon, for the employment of such members as may be without employment, or who may be suffering in consequence of repeated reductions in their wages;
4. As a further benefit and security to the members of this society, this society shall purchase or rent an estate or estates of land, which shall be cultivated by the members who may be out of employment, or whose labour may be badly remunerated;
5. That as soon as practicable, this society shall proceed to arrange the power of production, distribution, education and government, or in other words to establish a self-supporting home-colony of united interests, or assist other societies in establishing such colonies." (from the original Pioneers' Statutes as reported by Lambert, 1964, pp. 304-305).

*Definition.* "A co-operative is an autonomous association of persons united voluntarily to meet their economic, social and cultural needs and aspirations through a jointly-

owned and democratically-controlled enterprise" (ICA, 1995:10).

*Values.* "Co-operatives are based on the values of self-help, democracy, equality, equity and solidarity. In the tradition of their fathers, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others" (ICA, 1995: 13,15).

*Principles.* "The co-operative principles are guidelines by which co-operatives put their values into practice" (1995:3). "Seven principles are listed in the 1995 Statement. They are: Voluntary and Open Membership; Democratic Member Control; Member Economic Participation; Autonomy and Independence; Education and Training; Co-operation among Co-operatives; and Concern for Community. The first three principles essentially address the internal dynamics typical of any co-operative; the last four affect both the internal operation and the external relationships of co-operatives" (ICA, 1995:17).

In the course of its inquiry into the observance of the Rochdale Principles, the ICA, at the Paris Congress of 1937, introduced a distinction, among the seven principles approved, between the first four (open and voluntary membership, one-man-one-vote, limited interest on capital, and dividend on purchases) and the last three (neutrality in politics and religion, cash payment in buying and selling, and promotion of education). The first four were regarded as essential to the maintenance of the co-operative character. With time, the

principles changed and today no distinction of importance is made any longer. The differentiation between “internal” and “internal and external” principles, however, is significant of the shift from an emphasis on the internal-economic principles as essential to the maintenance of the co-operative character, to a tendency to give new emphasis to outward community concerns. In fact, although all the seven principles recently approved by the ICA share a clear emphasis on “members” and “membership” servicing objectives, the seventh principle states that: While focusing on member needs and wishes, co-operatives work for the sustainable development of their communities.

The above present us with a sequence where the Law First stands for the end, the principles for the means and the values as the supporting ethics. More particularly, the opening of a consumer store was conceived of as the first in a five-stage process of co-operative development to culminate in the setting up of a fully-fledged rural community encompassing all aspects of human activity. According to G.D.H.Cole (1944, pp.12-13), the historian of the Rochdale experience,

*The management of a store was only a means of pursuing the co-operative ideal, the foundation of Co-operative Communities or ‘Villages of Co-operation’ where members could live together on their own land and work together in their own factories and workshops, thus avoiding the evils of competitive industrialisation*

*and reaching a ‘new moral world’ based on mutual-help, social equality and brotherhood.*

It will be shown that a tension between the means (of which the initial store was a part) and the proclaimed end (the attainment of a “new moral world” as embodied in the community) has accompanied the co-operative movement throughout its history. This tension has often been characterised by inward tendencies towards restrictive measures, such as limiting the number of worker members in producer co-operatives while increasing hired labour or excluding the personnel from sharing in the benefits of consumer co-ops, opposed by calls for outward openness in the spirit of the original Law First programme. In the course of time such tendencies helped to shape the theories of isomorphism and “degeneration”, which maintain that under conditions of strong competition co-operatives are expected to assimilate, sooner or later, to the capitalist system and adopt its methods. The inward orientation of co-operatives has been long supported by the traditional identification of the notion of “member” with that of “user”. This is fundamental to the notion of the single-stakeholder co-operative.

Recent openings admit for non-user members and non-member users, i.e. a shift from a single-stakeholder to a multi-stakeholder co-operative system. An outward orientation, aiming to benefit groups beyond the conventional realm of members and reaching larger segments of the

surrounding community context, is part of new alternative strategies. Let us first have a brief look at the historical aspect of the issue.

## **Law First and the Evolution of the Rochdale Experience**

Did the Pioneers really intend to achieve the community aims as proclaimed in their preamble to the Statutes? The comments by G.D.H.Cole (1944) raise some doubts. When, in 1868, they launched their first housing scheme to benefit their members, the idea of life sharing was already obsolete and the project limited itself to the provision of reasonably priced houses.

Roughly at the same time (1864) the Pioneers established the first production units, again at variance with the spirit of the original ends. The separation between the productive enterprises managed by the founder members and the workers was a total one and this marked a further distancing from the all-purpose original design. In this way, the practice of the “identification of the notions of member and user” was established, to mean that the interests of the member are usually represented by a single class of stakeholders as consumers or as producers. As will be shown further, this is at variance with the new practice of multi-stakeholding.

As to the fourth paragraph of the Law First, the Pioneers themselves never went into the acquisition of land to meet problems of unemployment. At the 14th Congress of the ICA (London, 1934) a statement was approved to say

that the aims included in the Law First “can hardly be considered as fundamentals of the economic base of the Rochdale system and should rather be considered as reflections of the Owenite philosophy with which the Pioneers were intimately associated”.

This disregard of the Law First was compounded, as earlier mentioned, by the priority importance laid by the ICA, in the 1937 Paris Congress, on those principles dealing mainly with internal economic issues. It wasn't until 1980 that the spirit of the original Law First was revived at the London Congress in the Laidlaw Report.

The comeback of the co-operative community was requested through the establishment of “Co-operative Villages” in urban conglomerations, i.e. multi-functional organisations to meet growing needs for employment and food in the world. The Report expressed doubts as to the suitability of the old Rochdale principles, originally devised for the current management of a consumer store, to the requirements of the society of the 2000s.

The adaptability of the ICA to changing conditions has been recently assessed, especially with regard to the recognition that part of the co-operative's reserves have to be undistri-butable (principle 3); the need to acknowledge the possible participation of external capital, albeit under due precautions as to the co-operative's autonomy (principle 4); and the concern for the community (the newly approved principle 7).

On the whole, however, wonder was

expressed at how the recent dramatic impact of world markets on society could leave the co-operatives with relatively so unchanged forms and rules as emerging from the 1995 ICA statements (Chomel et Vienney, 1996). If co-operation is to keep its meaning, it has to be able to give answers to the newly emergent needs in the social and welfare domain. "If co-operation inherited from the XXth century is largely dominated by its economic arm, it may be that its significance, if not its existence, will be conditioned by the development of this social arm" (Ibid.).

## **Inward vs. Outward Orientation**

### *Member-user identification*

The traditional co-operative model sees the roles of member and user as merged in the same figure and this implies the homogeneous character of membership. That means that members' interests are usually represented in their capacity of either consumers or producers and that the presence of non-member users and of non-user members should be seen as provisional or kept to a minimum. By "user" (member or not, as we will see in a moment) is meant the person who patronises the co-operative by working in the same, buying from it, marketing through it, etc, as the case may be. Fauquet (1951) sharpened the notion by distinguishing between "seller-users, worker-users and purchaser-users".

More recently, the notion of "member-user" and its underlying assumption of internal homogeneity have come

under criticism in the face of the need to cope with such problems as the paucity of capital – a chronic limitation of co-operatives – and the increased call for an outward orientation of the co-operative movement. This points to two widely different objectives to which the multi-stakeholder system attempts to provide answers.

### *Single/multi-stakeholder co-operatives*

Unlike the single-stakeholder co-operative, the multi-stakeholder one provides for more than one class of stakeholders who may, or may not, be members. Two different approaches can be discerned in the literature. Laycock (1994) emphasises the importance of "significant" stakeholders in decision making processes (to the exclusion of the financiers), whereas Jordan (1989) is more concerned in the means of uniting the diverse and often conflicting interests of various stakeholders in co-operative enterprises (quoted in Pestoff, 1995).

An interesting question is, who are these stakeholders? Opinions differ and range from a minimum of three main interest groups (customers, labour and capital) according to Jordan (1989), through a five-group combination (the members, the firm's employees, the management, the local community and the state) according to Laycock (1994), to a combination of seven partners (the shareholders, the employees, the customers, the suppliers, the local community, society at large and past and future generations) which make up the "Inclusive Partnership Approach" (Thomas, 1997).

For the purpose of our subject matter two types of multi-stakeholder co-operatives will be considered: 1) the “hybrid” one characterised by the external investor member with limited – if any – voting rights and 2) the “community” one, characterised by such diverse participating protagonists as workers, parents, customers and “disadvantaged” people from the “weakest” segments of society.

It has been argued (Levi, 1999) that, though classifiable under the same multi-stakeholder connotation, the two types widely differ from each other as to their place and role in society. Whereas in the “hybrid” type the new external investor member is mainly interested in maximising return on invested capital and is typically not a user of the co-operative, in the “community” type the new protagonists may or may not be members but are usually users. The implications are meaningful: the external investor is delinked from the mutuality implicit in the “member-user” dyad and is expected to provide the co-operative with additional financial means, yet this may in the long run weaken the co-operative’s identity, since it helps to delink the member-user from the control over the co-operative’s capital. On the other hand, the multi-stakeholder system of the “community” type contributes to the motivational and internal cohesion of the co-operative yet may tend to be limited to situations where the level of economic activity is relatively limited and the financial risk is low.

In sum, multi-stakeholder co-operatives seem to contribute towards

de-emphasising membership and emphasising usership.

## Towards New Openings

### *New needs*

Pursuing such goals as increased involvement in welfare, community and relational services requires a kind of inter co-operative interaction between movements and networks based on trust, reciprocity and mutual responsibility hardly compatible with an inward orientation restricted to a mere “member servicing” approach. The recent debate in France on the possibility of adopting the Italian model of “social cooperatives” typically based on a multi-stakeholder system, has raised the point that, unlike the “social co-operative” aimed to serve people beyond the limited domain of the members and as such informed by an *altruistic* orientation, the classical co-operatives are informed by an introvert and *selfish* orientation (Espagne, 1999, italics original).

An outward orientation is likely to be associated with a shift of emphasis on the observance of the “internal” versus the other principles. This is not to diminish the importance of the first but rather to point to the possibility of flexibility in approaching them.

Participation may be achieved without a strict application of the “one man - one vote” principle, e.g. through consensus, charismatic leadership, enlarging the scope of “voice”, “infusing the business with a sense of purpose” (Birchall, 1999) or even – as recently suggested for specific cases – a weighted vote (Lazzareschi, 1998) in

proportion to patronage. On the whole, the equity principle requires that all interests present be dealt with according to “tangible justice” (Watkins, 1986). Quite apart from the historical western background of co-operatives, the criticism of the one-man-one-vote principle has been based on its incompatibility with local cultures.

In his discussion of the damage caused in sub-Saharan Africa by the resort to co-operative legislation of European origin, Belloncle (1986) warned against attempts to blindly introduce into African cultures such principles as voluntary adherence, one-man-one-vote, patronage refund and limited interest. He called for a “rediscovery of the spirit of Rochdale”, meaning the ideals embodied by the Law First and the “Villages of Co-operation”. The inadequacy of the one-man-one-vote principle to the African context persists, as shown by a recent Malian experience (Chomel, 1999). The formal equality implied by this principle seems to be incompatible with a culture that tends to emphasise allegiance to local traditional values.

Economic efficiency may be achieved without distributing patronage refunds but rather through their capitalisation (as recently recommended at an all-European Conference on Entrepreneurship and Co-operatives, Zevi, 1998) or using them as “... a community dividend [to be] developed to enhance our profile beyond the shop” (Making Membership Meaningful, 1995, p.89) or through market interest rates on voluntary member loans to the co-operative.

Yet, we cannot substitute for education, inter co-operative collaboration and community openness. New needs and trends seem to confer a particular importance to those principles dealing with the outward orientation of co-operatives. Commenting on the importance of social audit as a test of a co-operative’s accountability to its surrounding context, the point was made that:

Social audit really emphasises the ‘new ‘ or seventh principle. If you accept the principles, especially the seventh, then you are accountable for them (it) to the members, to the state, to the community (I. MacPherson, quoted by MacLean and MacKinnon, 2000).

#### *New emergent strategies*

Multi-stakeholder co-operatives have recently shown their applicability and won popularity in such disparate domains as banking (see the experience of the UK Co-operative Bank, Thomas, 1997); the day-care centers of Sweden (Pestoff, 1995, Stryjan, 1994); the Eroski consumer movement of Spain (Soraluce, 1998) and the social co-operatives of Italy (Borzaga, 1994, Barbeta, 1997, Levi, 1995; 1998; 1999). Underlying these new experiences we find the idea that business can be approached with a view to ethical principles and by substituting the wellbeing of a variety of individual, group and community stakeholders for shareholder interests (the Co-operative Bank); that the privatisation of welfare services opens up new opportunities for co-operative formation (the day-care centres of

Sweden); that the time has come to implement the old plan of co-operation to have the workers share in the decision making and financial benefits in the consumer domain (the Eroski experience); and to enable a new dialogue between healthy and disabled people under the same organisational framework (the social co-operatives of Italy).

On the whole, differential modes of decision making and sharing in risks and benefits are sought to accommodate diverse stakes under a common denominator.

### **Conclusion**

The evolution of co-operative thinking throughout the past sixty years or so shows the shift that took place since the 1937 Paris Congress of the ICA upto now: from an emphasis on the internal-economic principles as essential to the maintenance of the co-operative character, to the actual tendency to emphasise those principles which pertain to the outward orientation like

the fourth (autonomy and independence); the fifth (education, training and information); the sixth (co-operation among co-operatives); and mainly the seventh (concern for community). Such trends seem to match the general demand for more solidarity on a global scale, more emphasis on the relational potential of co-operatives and adaptation to more flexible, temporary and service based occupations as part of the process of change in the concept of "work". If so, the shift of emphasis might be seen as just the beginning of a more far-reaching change in the way co-operatives can match the proclaimed ends and the means to attain them. The multi-stakeholder organisation substituting for the historical single-stakeholder one may serve as a major tool in the pursuance of such strategies. This could enable co-operatives to lay greater emphasis on their original community vocation, thus going beyond the mere satisfaction of members' needs. □

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# Co-operative Development

## Changes in the Brazilian Social Economy and Institutional Environment

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by Sigismundo Bialoskorski Neto\*

### Introduction

To achieve the objective of reducing inflation in the Brazilian economy, it became necessary to control macroeconomic variables such as exchange rates and economic growth and to reduce government budget deficits, cutting resources for social programmes. As a result, unemployment increased from 7.1 to 11.68 per cent a year and casual labour, without rights and official registration, rose to one-third of the economy. The official health and housing programmes declined

Initially, this paper discusses the recent changes in the Brazilian economy, including the growth of the social economy, and analyses the importance of co-operatives. Later, it describes the institutional environment and the changes in the law necessary to permit co-operative development. It analyses



the Tenth, Eleventh and Twelfth Brazilian Co-operative National Congresses and the most important resolutions needed to modify the institutional pattern. In conclusion, it makes recommendations about the modifications in social non-profit enterprises and co-operatives, and presents a theoretical analysis of the public economy and of the institutional environment.

### Recent Changes in the Economy

During the last ten years the Brazilian economy has gone through important structural changes and macro-economic adjustments. High inflation rates were the norm during the 1970s and 1980s. The lower classes had to spend their money almost as soon as

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they received their salaries, to avoid losing the purchasing power. The economy was totally indexed. The population had grown accustomed to inflation and accepted constantly rising prices. Government failure to control spending, combined with economic indexation, were the main reasons why inflation persisted.

After the implementation of the Real Plan in July 1994, it became possible to halt the inflationary spiral and end the economic indexation used to control price levels. This was achieved by introducing controls on the exchange rate – the so-called “exchange anchor”, i.e. an overvalued exchange rate that allowed less expensive imports.

The “exchange anchor” imposed controls on the internal market and the price levels of imported products, forcing the different sectors of the economy to gain competitiveness in order to survive in the market. This policy directly influenced economic growth and the labour market. The national PIB decreased. Unemployment rose considerably and reached levels never before seen in the Brazilian economy, exceeding 10 per cent of the economically active population.

The transformation of the economy also had an impact on businesses, promoting bankruptcy and contributing not only to concentration in the market but also to the arrival of international enterprises.

The rising number of unemployed enhanced the so-called “informal economy”, i.e. people who work without an official register or maintain

small businesses unrecognised by the economy or by the government. These activities take place directly in peoples’ homes or without licence from the State authorities, and also as small services contracted without official registration.

A survey shows that this sector amounted to approximately 8 per cent of the GNP, occupying about 25 per cent of the economically active population in Brazil, i.e. 12.87 million people in 1997. According to the Brazilian Institute of Geography and Statistics, the per capita average income of these people was US\$ 208 a month and each informal economy enterprise had, in October 1997, an average income of only US\$ 1,220.

In this sector of the economy, 84 per cent of the enterprises had no specific line of credit or finance, and 66 per cent had no kind of licence to function. The criteria used are the same as for ILO – the International Labour Organisation. As a result of these changes in the economy, one can also analyse what happened in the labour market and in particular in the co-operative sector of the economy.

### **The Impact on Co-operatives**

Co-operatives also experienced changes during this macroeconomic adjustment process. One can analyze the changes in the number of co-operatives in the different sectors of the economy using data from the Brazilian Co-operatives Organisation – OCB – in 2000. Analysing the data it is possible observe that in Brazil the number of co-operatives grew 59.3 per cent from 1990 until December 1999.

## Evolution of Co-operatives in Brazil from 1990 until 1999.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	%
Agricultural	1393	1404	1438	1344	1334	1378	1403	1449	1408	1437	3.2
Consumers	311	336	336	292	261	256	241	233	193	191	-62.8
Services	195	206	202	194	191	194	209	206	187	187	-4.1
Educational	101	107	112	100	105	106	176	187	193	210	107.9
Labour	629	531	618	705	825	986	699	1025	1334	1661	164.1
Housing	179	182	177	187	176	174	190	231	202	276	54.1
Credit	741	763	665	788	809	834	859	882	890	920	24.2
Health*							468	530	585	698	-
Others							71	108	110	128	-
Total	3549	3529	3548	3610	3701	3928	4316	4851	5102	5652	59.3
% variation	-	0.5	0.5	1.7	2.5	6.2	9.8	12.4	5.2	10.8	-

\* *Until 1995, Health Co-operatives were included in the Labour Co-operatives classification, but after 1996, the Health Co-operatives were considered as a special segment of co-operatives - Brazilian Co-operative Organisation, 2000.*

After 1994, i.e. after the Real Plan, there was a clear increase in the formation rate of co-operatives. The number of co-operatives grew 52.7 per cent. (See Table above.)

The evolution in the total number of co-operatives can be observed. In 1999 there were 5,652 co-operatives and 5,014,016 individual members, approximately 3 per cent of the total population. However, different results of the macroeconomic changes can be seen depending on the co-operative economic sector. Thus many consumer co-operatives, hard pressed by competition from supermarkets and also facing difficulties in the scale of their operations and in their use of capital, failed to survive. There was a

reduction of 62.8 per cent in the number of these co-operatives. The number of agricultural co-operatives varies but they show a certain level of stability. Nevertheless, a marked growth in the debt levels of these co-ops is observed.

There were wide variations in the number of labour and credit co-operatives; this situation can be directly associated with the macroeconomic changes and the fluctuation of some important economic variables. The number of labour co-operatives showed a 164.1 per cent increase from 1990 to 1999, and 137.6 per cent from 1996 to 1999. Labour co-operatives in Brazil are divided into distinct categories such

as craftsmen, the cultural sector, transportation and several others corresponding with different kinds of professional and rural workers. The categories of labour co-operatives that have steadily developed are related to professional activities such as engineering, accountancy, information etc. According to OCB (1998), the average number of associates per labour co-operative was 234.28 in 1994, when the Real Plan was instituted, falling to 176.70 associates per co-operative in 1999. Thus, not only were there a higher number of co-operatives but also a decrease in the average size of each.

Comparing the labour co-operatives as a whole with the medical co-operatives, there was in 1998 a total of 516,396 associated workers. According to OCB (1998), 23.1 per cent had a university level education and 10.1 per cent had reached graduation level. Thus, a third of the co-op associates had a good educational standard.

Looking at the reasons for the establishment of these co-operatives, in 10.2 per cent of the cases they were part of the public service privatisation process; 22.2 per cent are associated with the need for being positioned in certain sectors of the labour market; and 38.6 per cent were created as a result of sub-contracting in private firms.

It is also possible to observe an increase in the number of credit co-operatives. This had some important causes. The first is that until 1997 co-operative banks were not allowed in Brazil. As a result, credit co-operatives had to rely on government or private banks for their accounts to be used in

the Brazilian financial system. The co-operatives had to pay a premium for these operations and were thus unable to show all the advantages of being co-operatives. After the establishment of the co-operative banks, the credit co-operatives took on a new lease of life. In 1999, there were 1,407,089 members of credit co-operatives and the number of co-operatives grew by 24.2 per cent.

When interest rates are analysed, we can observe that these rates have often been above inflation levels; however, after the Real Plan and the period of economic adjustment, interest rates rose proportionately more, when compared with the difference between nominal interest rates and inflation as measured by the General Prices Index. The increase in the number of credit co-operatives is possibly a response to the “real” interest rate rise during the macroeconomic adjustment process. We can also see a mid-term growth in the number of credit co-operatives.

## **Institutional Environment**

At the time of the Tenth Brazilian Congress of Co-operatives, in 1988, the institutional environment favored the emergence of a parliamentary group which, articulated as a pressure group, was responsible for advancements attained by the co-operative movement in the constitutional process. The 1988 Brazilian Constitution achieved important institutional results:

Article 5, XVIII: “the creation of associations and, as law determines, of co-operatives, is independent of authorisation, and State interference in their functioning is prohibited”. Today,

in Brazil, co-operatives do not depend on the State.

Article 174, item 2, says that “the law will support and stimulate co-operatives and other forms of association”. The State must support and give incentives to co-operatives as an organisational form of the population.

Article 146, Chapter on the National Tributary System, says: “The complementary law must...III – Establish general norms about tributary legislation, particularly on... c) adequate tributary treatment of the co-operative act practised by the co-operative societies”. Thus, the co-operative act is recognised as something different from the commercial act and a differentiated tributary situation is guaranteed for this act. This is very important for all co-operative activities, since these are recognisably the opposite of simple commercial activity. It is possible to interpret the importance of the new legislation as one of the reasons for the growing number of co-operatives resulting from the economical adjustments in Brazil.

At the Eleventh Congress, in 1998, it was determined that a new form of representation in the Brazilian Co-operatives Organisation would be necessary, with co-operative branches having greater representation in the organisation’s administration; this was considered necessary because of the growing importance of some sectors such as labour and credit co-operatives. Another important question was financial, with the

possibility of co-operative societies issuing bonds to reach the necessary capitalisation; the objective was to allow co-operative enterprises to obtain resources from alternative financial sources.

At the Twelfth Co-operative National Congress, in 2000, important topics discussed included the special co-operative certification process, which allows monitoring to guarantee quality and the granting of a “co-operative seal”. This would enable consumers and public agents to identify co-operative societies and their products.

In Brazil, there are strong pressures to change the institutional environment to allow greater efficiency within co-operative societies. The first modification concerns legislation, i.e. law 5764, which regulates co-operative activities. Tentative steps are being taken to establish new legislation both comprehending the problem of monitoring co-operative societies and allowing more modern capitalisation processes, while taking account of such basic fundamentals such the one-person-one-vote principle and the distribution of profits. These institutional changes would be compulsory for Brazilian co-operatives. It should be observed that these conditions already exist in other countries and appear to work well, giving co-operatives an improved competitive position.

## Conclusions

With the economic change Brazil is now going through, including the high levels of sacrifice concerning income

and growth, one might consider that society is freely and autonomously organising itself to face up to this process. As a response to the extremely high level of unemployment, and other factors, society is organising itself into labour co-operatives, many with highly educated members. It will be interesting to see if this profile changes over time. Moreover, because of high interest rates and low income levels, more credit co-operatives are being formed, with the aim of reducing capital costs, obtaining financial resources for investment and providing circulating capital for small firms. This activity is now possible because, following the Tenth Brazilian Congress of Co-operatives, there is legislation in the Brazilian Constitution that permits an environment where co-operative societies do not depend on the State. This has helped co-operatives to respond swiftly to the difficulties arising from the changes in the economy.

On the other hand, it is necessary to adjust the national co-operative

system to the changes occurring in this sector. During the Eleventh and Twelfth Brazilian Congresses of Co-operatives, a new OCB organisation emerged aimed at providing greater representation for those co-operative sectors that have shown more growth in the last few years, such as credit and labour.

Finally, one must emphasise the importance to the population of free and autonomous organisation to encourage a more just and egalitarian society. The co-operative movement in Brazil is a reliable and safe response to their adversities.

In the future it is hoped that co-operatives will be considered as an efficient organisational form, providing economic and social responses to changes in the economy and the globalisation of markets. In Brazil, the view is that an important growth of the co-operative movement is occurring that should become a significant factor to be considered by public policy-makers in economic planning. □

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# Co-operatives in Argentina and Brazil: Scenarios, Processes and Players

by Mirta Vuotto\*

This article summarises a number of presentations made at the first Meeting of Latin American Researchers in Rio de Janeiro, Brazil, in December 2000. The purpose of the meeting was to stimulate research activity, provide a platform for contributions and create a forum for the exchange of ideas among different groups of researchers. The 26 papers from academic institutions in Latin America<sup>1</sup> addressed a range of themes, making it possible to take an in-depth look at different research and examine the methodology of the studies made in the co-operative region. The studies selected for this article describe the position of the co-operative movement in Argentina and Brazil and the significance of specific cases in the two countries.

To describe the evolution of the co-operative movement in Argentina, the appraisal of Andrea Levin and Griselda Verbeke<sup>2</sup> presents an over-



view of the regional and sectoral distribution of co-operatives, showing their variation in the last three decades. The authors state there were 3,722 co-operatives in 1998 and they analyse the dynamics of the sector, pointing to significant changes in the 1990s, when average yearly registrations tripled compared with the previous decade. They highlight the increase of urban co-operatives, especially worker co-operatives, and the short life cycle of these co-ops. They also note the lower growth in the registration of new farming co-operatives – historically known for their contribution to major change in the sector.

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The number of co-operatives registered is an inadequate indicator for analysing growth, since the registration procedures adopted by the State do not include an evaluation of business and membership criteria for these co-ops. This indicates the inadequacy of the registration procedures, since they focus merely on quantitative measures (of formations).

Their study notes the disparity in the geographic distribution of the co-operatives, with a heavy concentration around the metropolitan centre of Buenos Aires and in those regions showing significant economic and social development. Considering the resources put into the creation of these co-ops, the work carried out at the socioeconomic level and the common values they share, the authors raise questions about the difficulties preventing them from securing long-term sustainable development.

The comparative study of Mariana Alonso Brá<sup>3</sup>, based on case analysis methodology, considers the social potential of self-managing and participatory educational experiences, questioning the viability and conditions for the growth and development of this type of practice. The theoretical approach of this study focuses on the associative dynamics of these school co-operatives.

This distinctive approach contrasts with studies with classifying or typological descriptions (emphasising some of the “typical” attributes of these organisations), or studies based on analyses of their structures, and how they might “degenerate”. [It also differs from economic studies, con-

cerned about the “co-ownership” of this type of business].

In order to study the experiences of individuals and their interrelations (as members), two theoretical paths are pursued: one on collective action and the other focusing on the reproduction of the associative life. The main processes of interest are those of members interacting. Thus membership is socially constructed and reproduced through daily practices which lead both to stability and organisational change.

The educational perspectives in these school co-ops are also considered. This is designated as critical pedagogy, with organisational and pedagogical dimensions – involving both autonomous and participatory management in the school co-operatives. This theoretical approach provides essential tools for identifying the obstacles facing self-management and the processes that support it.

The paper of Mario Elgue<sup>4</sup> assesses government policies and their effects on the co-operative movement, based on his personal experience as head of management of the Provincial Institute of Co-operative Action between 1992 and 1999<sup>5</sup>. The work is prefaced by a brief history of the origins of Argentina’s co-operative movement, which was linked to migratory trends at the end of the 19<sup>th</sup> century.

He describes the subsequent creation of co-operatives and their significant role in providing goods and services not catered for by market enterprise and the State, mentioning the support provided by democratic governments,

as opposed to the antagonism of military dictatorships.

The author urges the need to respect co-operative autonomy, pointing to the significance of a strategic alliance between the State and the social sector of the economy aimed at democratising the economy and revitalising civil society. The advance of government agencies to promote management effectiveness is advocated, together with the importance of the co-operative movement seeking greater unity between sectors and branches, encouraging younger people and promoting more training; while avoiding “doctrinaire” excesses and the efficiency cult of the large corporations.

The research of María Cecilia Roggi<sup>6</sup> analyses the conditions for the development of worker co-operatives in the province of Buenos Aires during the last 15 years. She links the distinct growth in the sector with people’s desire to find individual and collective alternatives, in the face of high unemployment, and promotional activities carried out by the State and other co-operative representative bodies.

The study analyses the sector’s involvement in the creation in 1992 of the Provincial Institute of Co-operative Action (Instituto Provincial de Acción Cooperativa - IPAC) in the province of Buenos Aires. The author identifies the relevant actions of promotion and assistance carried out by the Provincial State to develop the social economy, together with its economic and social effects. The

investigation considers the inherently multi-dimensional scope of worker co-operatives and identifies aspects of the existing legal framework that restrict the “co-operative advantage”. For this reason she predicts a shift in the goals of government policy and promotion to other types of associative bodies.

The research project presented by Claudio Fardelli, Javier Cantero and Ricardo Zalazar<sup>7</sup> focuses on the role of the micro-enterprise in Latin America, its place in the region’s economy and its contribution to creating employment. The author points out that, in Argentina in 1994, the sector generated 10 per cent of added value and occupied 17 per cent of the labour force. Their requirements for very small amounts of start-up capital and the short-term planning cycles under which they operate are considered, together with the high levels of new business start-ups and large proportion of business failures.

Short-term financing constitutes one of the greatest challenges for micro-entrepreneurs because access to such finance is extremely difficult. Credit restrictions make capital expensive and constrain their operations while, a high proportion of micro-enterprises frequently operate outside official legal and fiscal regulations, giving rise to a form of “financial exclusion”.

Given that only around 5 per cent of the micro-entrepreneurs in Latin America have direct access to formal financial services, the investigation expects to verify the appropriateness of credit co-operatives in filling the void caused by the lack of interest from commercial banks, and in

overcoming the difficulties encountered by some NGOs acting in the field of microcredit.

From a juridical perspective, the research of Alfredo Victorino Callejo<sup>8</sup> contributes to the debate about the suitability of Argentine co-operative legislation in the light of the development requirements of co-operative businesses. The study outlines recent legislative changes in other countries and makes a comparative analysis, assessing the need and scope for the possible reform of Argentina's laws. From this perspective the author offers an interpretative analysis of the main articles in Law 4/1993 of the Basque Country, underscoring the usefulness of incorporating those laws that maintain an appropriate relationship with co-operatives principles (restated by the ICA in 1995), and that might allow Argentine co-operative businesses to try out new management alternatives.

It is estimated that the incorporation of some articles of the Basque law could help to rectify undesirable side effects of the present legislation in Argentina regarding members' true commitment to their co-operatives. The author points out the value of reaching a balance between excessive regulation and indiscriminate openness when re-drafting co-operative bylaws in a changing socioeconomic environment.

The research of Liliana Fernández Lorenzo, Norma Geba, Verónica Montes, Rosa Schaposnik and Teresa Novarese<sup>9</sup> proposes a model of Social Audit that does not require social information from users and other

stakeholders. The determination and operationalisation of the specific variables allows them to be integrated in a model applicable to all types of co-operatives, and it is appropriate for Argentina's situation.

The model is based on the use of socioeconomic indicators showing trends over time. It has the dual purpose of reflecting the co-operative identity – through compliance with the Co-operative Principles – and the exercise of social responsibility by the business. In addition, this model allows comparison between different co-operatives since the principles are common to all of them, as well as self-evaluation by the co-operative itself since it is possible to establish and measure the social achievements.

The model integrates two basic reports: the Social Balance Sheet with quantitative or objective indicators, and the Internal Social Report with qualitative indicators obtained through opinion surveys. The model was put into practice by some co-operatives, and presented alongside their traditional accounts.

Based on analyses of the important transformations in the Brazilian economy during the last few decades, the study by Sigismundo Bialoskorski Neto<sup>10</sup> describes the effect of macroeconomic policies for structural adjustment, addressing unemployment, informal work and the reduction of resources for social programs.

The investigation focuses on the development of different organisational models of the social economy in facing these transformations. Brazil's

co-operatives are described from the perspective of three considerations: the dynamics of the sectors experiencing rapid growth as a consequence of economic factors in such areas as health, housing, work and credit; the relevance of co-operatives to excluded populations around the large cities; and the dynamics of farmer co-operatives, traditionally the most important sector of the national economy given its competitive position in international markets.

The study notes the important growth in the number of co-operatives in different sectors that has taken place between 1990 and 1998, especially as a result of the stabilisation plan of 1994. Among the 5,102 co-ops existing in 1998, the rapid growth of worker co-operatives as a response to the high rate of unemployment is noteworthy, along with the presence of organisations in non-traditional sectors indicating the change in profile of the co-operative movement compared with previous decades.

This study also describes the institutional context for the co-operative movement and the legislative changes needed to make development of the movement possible, underlining the distinctive role of the 10<sup>th</sup> and 11<sup>th</sup> National Congresses on the Co-operative Movement and their contribution to modifications in the institutional context.

The case study by Otto Guilherme Konzen<sup>11</sup> analyses the performance of

the Petrópolis Ltda Agricultural Co-operative (COAPEL), established in 1967 and specialising in dairy production and fruit cultivation. The investigation examines programmes of assistance for members' activities and demonstrates that the challenges of business competitiveness and growing complexity do not necessarily distance business from its social roots. The analysis describes the effect of different projects, showing how they form a set of interdependent and complementary measures.

Their main objective is to help co-operatives to increase farmers' productivity, and assist them stay on the land instead of migrating to cities. For example the Machine Groups project ("Maschinenringe") established in 1997, was implemented jointly with COAPEL members; the interests of 426 farm families were looked after for a period of six months. The study describes the rich experience in which farmers can become more professional, through the development of different programmes for economic efficiency and member development.

The presentations summarised in this article are the product of wide-ranging investigations into the scenarios, processes and players in the co-operative movements of two Latin American countries. The results provide a useful guide for future action. The productive debate during this Meeting of Latin American Researchers should be a good starting point for researchers and co-operators alike. □

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- 9 “Balance Social Cooperativo Integral”
- 10 “Changes in the Brazilian Social Economy and Institutional Environment in Co-operative Development”
- 11 “A cooperativa agropecuária Petrópolis Ltda –COAPEL: Uma experiência de sucesso com pequenas propriedades rurais no Rio Grande do Sul – Brasil”

# Indian Co-operatives in the Millennium: Prospects and Challenges

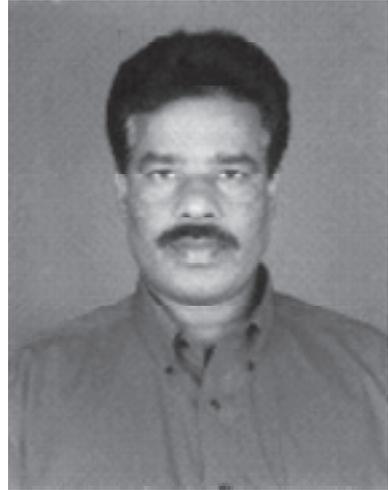
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by Dr. K. Janardhanam\*

## Introduction

The liberalisation of the Indian economy since 1991 has brought about drastic structural changes in all spheres of the economy. The subsequent emergence of global competition has led to many changes in the strategies of various sectors to improve their competitiveness.

The scope of the Indian business sector has been widened and opened up to the global market. The national Government has withdrawn its protective support for various sectors. Thus the survival of these sectors will ultimately depend on their performance rather than just on government support. They must show they are efficient enough to become globally successful businesses. In this context, there is no exception for the co-operative sector, which likewise has to prove its efficiency in its business activities.



## Indian Scenario

The co-operative sector has spread its activities in all spheres of the economy, including agriculture, poultry, dairy, fisheries, handlooms, banking, sugar, spinning, consumer co-operatives and the like. The co-operative sector came into being in the first quarter of the twentieth century with the Co-operative Societies Act of 1904 and the comprehensive enactment of the legislation in 1912. By realising the importance of the involvement of the people themselves in activities for their own benefit, the Government made strenuous efforts to push forward the co-operative sector. The Government has reiterated this policy

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time and again and incorporated it in its development programmes. Accordingly, various measures were taken to promote the co-operative sector to function effectively for the benefit of the public in general and the members of the co-operatives in particular.

Considerable financial support was also given to co-operatives in the various five-year plans. This required amendments to the existing Act and also various policy measures for the development of co-operatives. But the performance of Indian co-operatives, with a few notable exceptions, is not encouraging for various reasons.

Co-operatives have emerged as an important and vital sector of the Indian economy. The sector consists of 200 million members embracing 100 per cent of villages and 65 per cent of households outside the cities. Co-ops play a dominant role in agriculture by providing the necessary financial support for its overall growth. They also provide the necessary inputs to further strengthen the agricultural base in the countryside, where the majority of the population depends for its livelihood on agriculture and agro-based sectors.

Credit co-ops are successfully functioning and supplying financial support for agricultural development. Their contribution towards agricultural development is on a par with the commercial banks. The co-operative banks, with the help of the National Bank for Agricultural and Rural Development (NABARD), are extending financial support to the various agro-based activities such as

dairying, poultry, fisheries, agricultural marketing and other allied activities.

Co-operatives are also doing their best to control and maintain the price of essential commodities at reasonably affordable levels by undertaking procurement and marketing of the essential items, thereby eliminating middlemen.

In this context, consumer co-ops are playing a considerable role in protecting the interest of consumers. Their intervention in the market brings stability to market prices and provides direct benefits to the consumer. The middlemen indulge in various malpractices such as charging exorbitant prices, adulteration, false weights, sale of inferior goods, duplicate goods, spurious medicines, defective after-sales services, misleading advertisements, unethical business practices and the like. These middlemen enjoy a major slice of the profits, widening the disparity between the purchase price and selling price. They enjoy their comforts at the expense of consumers whose health and wealth are least cared for.

In this environment, consumer co-operatives are expected to do much for the welfare of consumers by safeguarding them from the clutches of ruthless exploitation.

The agro-based co-operatives such as poultry and dairy co-ops also play an important role in the development of the rural sector. People depending on the agricultural sector can effectively use their idle time in the low season for agricultural activity by establishing dairy and poultry co-ops. These two

activities supplement income from the traditional agricultural source. The dairy co-ops, which have become an integral part of the rural scene, are generating additional employment and income. These co-ops work effectively, keep rural people occupied, and achieve maximum earnings from the dairying activity. In addition, poultry co-ops are also contributing considerably to improving living conditions.

The poultry co-ops generate more employment as well as additional earnings for the rural poor. This is a very useful economic activity for people who are dependent on agriculture that is totally seasonal, providing them with work at a time of year when they are otherwise idle and helping them to enhance their total earnings.

Co-operatives can also contribute more to the economic development of the people. The handloom co-ops are a caste-based activity that involves a large number of people who are interested in furthering their living standards. This enables women and youth to become actively involved in supplementing their usual earnings, which may come from agricultural activity or agricultural labour.

The national and state governments concerned have assisted these co-operatives with a package of incentives including financial and managerial aid. These co-ops are given priority in receiving short-term loans as well as working capital loans to strengthen their activities. They are helping the weavers to increase their

productivity and market their products.

Thus the co-operatives, as associations of weavers, are creating some employment as well as the means to earn more money to improve their standard of living. As they benefit the poor to the greatest extent, it helps them to cross the poverty line. These co-ops create a congenial atmosphere for those who are concentrating on weaving as a primary activity or as a secondary activity in addition to their regular job. The National Co-operative Development Corporation is also playing an important role in strengthening these co-ops by providing financial assistance. It is notable that these co-ops to a great extent involve women as well as young people and provide them with more job opportunities.

Another type of co-operative, for fishermen, is benefiting people in fishing communities by increasing their output as well as earnings. These co-ops are providing marketability for their products as well as creating an atmosphere where people can concentrate on their principal activities. Central Government extends its support to these co-ops to help those people existing below the poverty line to improve their incomes and living standards.

It is also worth mentioning other types of occupation-related co-operatives with similar aims of strengthening people's financial base and creating markets for their products. These include bamboo weaving and pottery co-ops. These co-operatives are spreading in all areas where people

specialise in these day-to-day activities, creating awareness, interest, zeal and encouragement - particularly among unemployed young people and women. There is no doubt that people feel committed to work harder in their particular fields of interest by forming co-operatives, and they also feel more confident of achieving success.

Other major types of co-operatives - like sugar, spinning and housing - also have a successful track record. Sugar co-operatives have operated in a big way and very profitably for the last few decades.

The national Government came to the rescue of the sugar industry and granted it protection in the market, making it stronger. Co-operative sugar factories play a major role in the socio-economic development of the areas in which they operate. They manufacture a considerable amount of sugar to meet the requirements of the Indian population and they also declare reasonable profits for the co-operative members. The emergence of these co-operatives has proved that if they are run on scientific lines, they can contribute substantially to the economic development of the country in general and the co-op members in particular. The growth of these co-operatives is expected to spread throughout the country, providing improved earnings for their members.

Since the liberalisation of the economy the total economic structure of the country has been drastically changed, bringing severe competition to co-operatives. As the economy was opened up to global competition, co-

operatives were expected to meet a greater challenge from multinational companies. However, co-ops can survive only when they prove their efficiency and show their metal in terms of increased cost effectiveness, technology, output, sales, etc. Apart from these developments, the national Government has withdrawn subsidies from co-ops, leaving them to survive on their own financial resources. This challenge requires co-operatives to think in terms of long-term market stability.

No doubt they can exist in the competitive industrial world if they are efficient enough. Otherwise they have to leave the industrial scene. To meet these challenges, co-operatives must redraw their strategies in order to function efficiently and improve their overall profitability. First, they have to develop cost consciousness and reduce production costs at all levels. Then they have to minimise wastage and ensure maximum efficiency.

Another important area they must consider is the appropriate technology. They have to develop their own technology in order to compete in the global market, importing the latest technology to improve efficiency. Only when they run their business activities on more scientific lines can they survive in the competitive business world. Since the Government is withdrawing the protective support system for co-operatives, they have to search for various alternatives to stabilise their activities and operate successful units. No doubt they can survive in the competitive global

market as long as nothing comes in the way of their own efficiency and performance. The Government policy is for the co-operatives to be exposed to the global competition so that they can learn to survive in the global market place.

## Issues

Although co-operatives have considerable importance in Indian economic development, the present scenario for the sector is not encouraging. The majority of co-operatives, with a few exceptions, are not doing well in their business activities. They are suffering from various factors, including:

1. Lack of required financial resources
2. Lack of efficient management
3. Lack of professionalism
4. Lack of business acumen
5. Lack of proper perspective on the future of co-operatives
6. Lack of commitment and interest on the part of the co-op officials
7. Lack of active involvement and participation by the co-op members
8. Wrong decisions on major issues because of lack of specialisation in that particular field
9. Poor profitability and the like.

With the exception of the banking sector, co-operatives are performing badly. Sectors including consumer, marketing, handlooms and fisheries are sustaining heavy losses, affecting the interests of members. The reason is lack of commitment and involvement among members and

consumers. This decline ultimately reflects the inefficient operation of the co-operatives.

No doubt the success of any business ultimately depends upon its efficiency. Unfortunately, Indian co-operatives are facing daunting problems in running their businesses. Their profitability greatly depends on the efficiency of the purchasing or manufacturing of goods and services and of their marketing. They have to develop their own business strategies relating to these crucial issues and achieve self-sufficiency in financial resources, instead of depending on financial aid from Government or other sources. They have to raise funds from the external market because financial assistance from the Government side has dried up. To get financial support from the external market, they have to prove their creditworthiness. Unfortunately, these co-operatives are unable to prove their creditworthiness as most of them are run on unsuccessful lines. Bankers and other financiers extend credit based on profitability over a period of time. Unless these co-ops can prove their efficiency, they will not receive the necessary financial support. This situation tends to make people lose confidence and this is one reason why they become less actively involved in their co-ops. It is a fact that without the involvement of members, co-operatives cannot gain success in their respective fields.

In the new global environment, co-operatives have to change their strategies to cope not only with the existing competition from private

businesses but also the multinational companies which are spreading rapidly in the Indian sub-continent. No doubt success in terms of profitability derived from efficiency is the ultimate deciding factor for survival in this competitive environment. But in India the situation is not encouraging because co-operatives' failures in their business operations result in heavy losses year after year.

### **New Challenges**

The co-operative sector is facing severe competition from private business and multinational companies. Co-operatives are in no position to compete with private business and are suffering from a lack of vital financial resources. The productivity of those societies in manufacturing and the sales efficiency of those in other business sectors are not up to the required level. This situation makes them lag behind the private sector in all respects. The private sector is thriving while these co-operatives are struggling for the reasons discussed earlier. The globalisation of the economy since 1991 has also posed greater challenges to co-operatives, which must restructure their business activities and aim to achieve success on a par with other sectors of the economy.

Co-operatives have to change their business policies and strategies to cope with the global competition. They have to work with utmost efficiency, using the latest technology while keeping in view the cost consciousness and productivity that must be maintained to achieve the desired

result. Unless they realise the importance of change in the new world order, they cannot succeed in their efforts to achieve reasonable profits. Unless they work efficiently, the majority of the people will no longer gain any benefit from their co-operative movement. Then people may lose hope in the co-operative system and neglect their societies, which are expected to provide welfare for the members.

Yet these societies may not achieve the expectations of their members because of the inherent weaknesses in various aspects of their businesses. To be more specific, too much political interference is damaging the co-operative ideology and the confidence of members. Political leaders use co-ops in the initial stages of their careers as stepping-stones, becoming elected as office bearers in their societies. After their election they neglect the business activities of the societies, as these elected bodies have hardly any knowledge of managing the organisations. They are using co-operatives for their own ends, without contributing anything to the development of co-ops or their members.

In the present economic situation there is no scope for expanding the activities of co-operatives in many fields because they are already branded as failures. No doubt co-operatives have distinct merits in their objectives and ideologies. But in practice these merits are failing to reach the public who are expecting benefits from their co-operatives. As associations of people with common needs and purposes, co-

ops are no longer meeting the specified objectives and welfare needs of their members. There is a lot of difference between co-operatives and corporate types of enterprise in terms of objectives, capital formation, business practices, etc. No doubt co-operatives can simply function on commercial lines as in the corporate sector. But in the present global scene, co-operatives also need to widen their business horizons and operate commercially to increase their profitability. Unless they earn profits, they cannot survive. For survival alone, they have to change their business strategies and policies towards maximisation of profitability on more commercial lines, on a par with the private corporate sector. Therefore their ideology should be changed to compete with the corporate sector and earn profits on similar lines. This is the essential business strategy for co-operatives; otherwise their existence may be in doubt.

The national Government still recognises the role of the co-operative sector in the economic development of the country, with its emphasis on social justice. It is also encouraging co-operatives to expand into other lines of business such as horticulture, floriculture and agro-based sectors. Recently, with the introduction of insurance reforms, co-operatives have also been poised to enter the insurance business. If this happens, co-operatives may find good revenue generation opportunities for their businesses. But policy makers must ask whether co-operatives can survive in new areas such as insurance, given

the new economic environment. Can they compete with private and multinational companies while protecting their co-operative identity, values and principles? It may be doubtful whether co-operatives can maintain their identity in the existing competitive global environment.

## **Conclusion**

Bearing in mind the present challenges for co-operatives and also the salient features of co-operative identity, co-operatives in India should restructure their business policy and strategies to meet the new economic environment. To achieve overall development, keeping in view the competition from both private and multinational companies, co-operatives have to reframe their business activities in terms of technology, personnel, buying and selling policies, organisational structure, involvement of members, efficiency of the organisation, etc. Only when the people in charge are managing their co-operatives efficiently will they be able to thrive in the competitive global business world. They have to combine a congenial working environment with the latest technology and adopt a scientific approach to managing their units. They should develop a sound human resources policy which should really be an asset for co-operatives, as the success of co-ops mainly depends on people.

In this process, good training for personnel on the latest trends is essential. They have to make people become involved to a greater extent, as the membership fee is the main

equity for co-operatives. Therefore they have to attract more members to augment their financial base. This will be possible only when they gain the confidence of the public by running their businesses efficiently. Through IT they have access to the latest information at the global level to change their business strategies and make them more appropriate to the new economic environment.

Only then can co-operatives flourish, strengthen their existing base and gain the confidence of the public. No doubt co-ops can succeed in these efforts if

they are committed to doing so with firm determination. With commitment, no doubt, nothing can foil their efforts. The co-operative movement is expected to play a major role in the Indian economy in various sectors by improving efficiency in every way. Therefore the Government should also strengthen the co-operative base with financial as well as managerial assistance.

Let us hope that the Indian economy can prosper with co-operative ideology and know-how. Let us hope that the co-operatives can flourish. □

# Effects of Merger Programme for Primary Agricultural Co-operatives in Korea

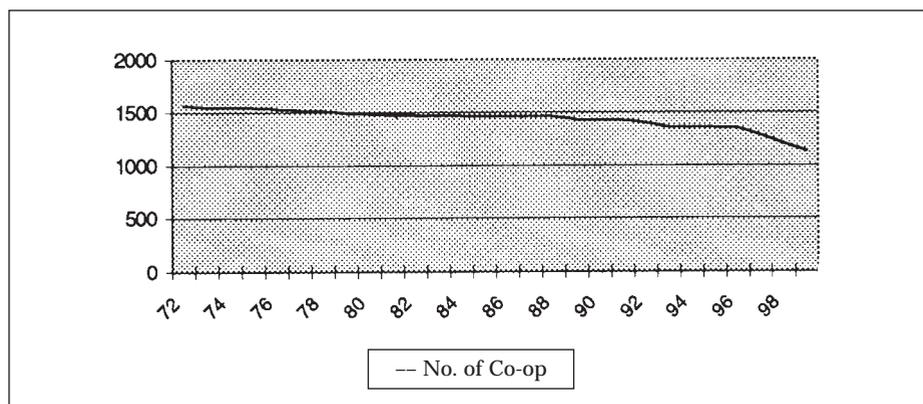
by Jung-Joo Kim\*

## Introduction

Primary agricultural co-operatives in Korea are organised at the township level, which is the country's lowest administrative level in the government structure. Their business size is small-scale and consequently it is difficult for them to enjoy economies of scale. To overcome this, the agricultural co-operatives have since 1989 been trying to merge into larger units. As a result of this process, 329 co-operatives actually disappeared between 1989 and 1999. However, it is still doubtful whether



**Table 1. The Trend in Co-op Numbers**



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this merger programme has gone far enough for them to enjoy economies of scale in their businesses. The aim of this paper is to identify the effects of the co-operative merger programme. Before the analysis there is an overview of the general position of agricultural co-operatives in Korea.

## Status of Agricultural Co-ops

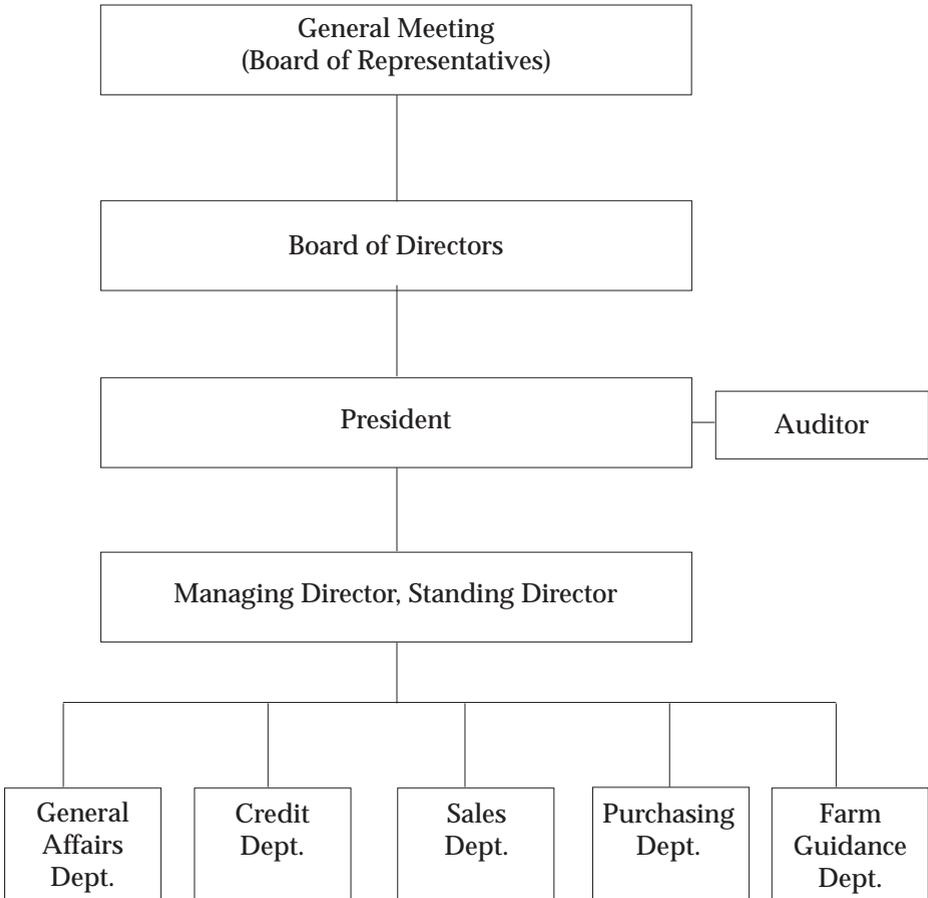
At the end of April 1999, the total number of primary agricultural co-operatives in Korea was 1,725. Out of them, 1,559 were regional agricultural co-ops, while the rest were specific crop, business or manufacturing co-ops.

**Table 2. Primary Co-operatives in Korea (1999) <sup>(4)</sup>**

Classification	Agri Co-op	Fisheries Co-op	Livestock Co-op	Forestry Co-op	Ginseng Co-op	Toba'co Co-op	Total
No. of Co-ops	1249	87	193	144	14	38	1725
Regional Co-ops	1203	66	146	144	-	-	1569
Specialised Co-ops	46	21	47	-	14	38	166
No. of Farmers	6037	849	2721	45	33	37	9722
No. of Members	2050	167	277	488	33	37	3052
(1,000 per Co-op)	(1642)	(1915)	(1437)	(3389)	(2325)	(969)	(1769)
Quasi-Members (1,000)	3987	682	2,444	443	-	-	6670
No. of Employees	50913	9630	20079	2537	311	519	83989
(Persons/Co-op)	(40.7)	(110.7)	(104.0)	(17.6)	(22.2)	(13.7)	(48.7)

Each primary agricultural co-operative consists of decision-making bodies such as general meetings, boards of representatives and boards of directors, as well as an executive body.

**Table 3. Typical Structure of the Primary Agricultural Co-op in Korea**



Each primary agricultural co-operative includes various farming groups, organised by farmers growing and ranching the same kinds of crops or animals as its sub-organisations.

At the end of 1999, the number of farming groups in the case of regional agricultural co-operatives was 19,871. The primary agricultural co-operatives have formed national federations to

seek common interests among member co-operatives and to facilitate their development.

The federations also have a general meeting and board of directors. According to the new Agricultural Co-operatives Act, the three national federations (agricultural, livestock, and ginseng) will be merged into one federation.

**Table 4. Organisation of the National Co-operative Federations, 1999(4)**

<i>Co-operative</i>	<i>Office in Province</i>	<i>Office in City and County</i>	<i>Branch (1)</i>	<i>Affiliated Companies</i>
Agricultural Co-op	16	156	711	10
Fisheries Co-op	9	-	142	3
Livestock Co-op	10	-	668	1
Forestry Co-op	9	-	10	1
Ginseng Co-op	-	-	1	1

*Note: 1) Inclusive of banks, joint markets and stores.*

Korean agricultural co-operatives have diversified functions that can generally be classified into marketing and purchasing businesses, farm guidance services, banking businesses and co-operative insurance services. Co-operatives also undertake various activities to defend farmers' interests and improve their socio-economic position.

**Table 5. Business Scale of Co-operatives by Sector, 1999(4)**  
(Unit : Billion won)

<i>Classification</i>	<i>Agricultural Co-ops</i>	<i>Fisheries Co-ops</i>	<i>Livestock Co-ops</i>	<i>Forestry Co-ops</i>
Marketing Business	27,617.6	2,982.6	3,837.7	35.9
Credit Services <sup>2</sup>	175,092.5	13,885.4	20,894.9	2,169.4
Insurance	54,753.3	6,105.7	8,871.4	-
Total	257,463.4	22,973.7	33,604.0	2,205.3

## **Effects of the Merger Programme**

To identify the effects of the merger programme, 36 primary agricultural co-operatives that had been the subject of mergers of more than two co-operatives between 1989 and 1997

were selected, and their business data were analysed. At the same time, 225 member farmers and 145 employees of these primary agricultural co-operatives were interviewed.

**Table 6. Co-operative Business Volume Before and After Merging**

Business Volume (Million Won)	1988 (Before)		1998 (After)		B/A (Times)
	Avg(A)	C.V(%)	Avg(B)	C.V(%)	
No. of member (Persons)	1,331.0	88.3	4,440.6	59.4	3.3
No. of Employee (Persons)	24.4	88.7	90.2	67.7	3.9
Loan (Mutual.)	44,540.9	107.1	58,919.2	74.3	1.3
Dividend (Share capital)	69.0	662.1	100.4	74.8	1.5
Borrowing Facilities	257.7	472.4	996.1	85.2	3.9
Share capital	151.1	83.5	969.3	76.2	6.4
Daily Necessity	449.3	101.6	2,936.4	63.7	6.5
Business	400.6	93.3	2779.6	102.1	6.9
Own Capital	3,559.9	89.5	26,858.6	48.5	7.5
Loan (Government)	2,028.1	86.6	15,426.9	56.2	7.6
Selling Business	7.2	93.1	55.1	86.6	7.6
Dividend (Utilisation)	471.2	88.4	4,829.6	76.8	10.3
Gross profit	31.7	107.5	344.6	84.5	10.8
Guidance Expense	11,798.0	96.8	131,855.9	72.1	11.2
Total Assets	6,197.6	108.8	81,635.0	86.6	13.2
Mutual Saving	357.1	91.8	5,854.3	81.3	16.4
Insurance	382.2	112.8	6,840.2	54.6	17.9
Purchasing Business					
Fixed Assets	445.5	117.9	11,332.9	307.0	25.4

After the mergers (i.e. in 1998), the business volume of the sample co-operatives had increased by between 1.3 times and 25.4 times more than before merging (i.e. in 1988).

However, in a survey among the member farmers and employees, who were

asked to evaluate the business and activities before and after the merger programme, most of the respondents expressed negative views.

As a result, it would be very hard to explain in a word exactly what the effects of the merger programme were.

**Table 7. Evaluation on the Merger Programme by Members and Employees**

		Negative View	Positive View
By Members	Farm guidance was improved	65.1%	30.2%
	Members' suggestions are reflected.	67.8%	28.3%
	Marketing businesses are improved	52.6%	30.2%
	Banking businesses are improved	30.2%	65.1%
By Employees	Service activity is enforced	50.4%	48.9%
	Suggestions of members are reflected	57.3%	42.7%
	Marketing businesses are much improved	47.6%	52.4%
	Banking businesses are much improved	55.9%	44.1%

According to a classic theory of economics, when the scale of the business is increased to some extent the economies of scale are decreased, since the cost function is U-shaped. In order to identify whether any economies of scale really exist, the cost function of the co-operative businesses should be drawn. However, the data on the costs of the agricultural co-ops are not open to the public, and it is thus hard to identify the existence of economies of scale using cost function analysis

As a substitute for this, the Cobb-Douglas production function analysis was attempted to ascertain whether economies of scale had occurred in the agricultural co-operative businesses. In other words, an attempt was made to find out whether the enlarged business

scale brought about by the mergers had resulted in any reduction in the costs to the co-operative businesses. In general, if input prices are constant, all the needed information for determining the shape of the cost function is given by the production function, and all the information for determining the shape of the production function is given by the cost function. Since there exists a duality between the cost function and production, it should be possible to analyse the existence of economies of scale in the agricultural co-operative businesses using the production function instead of cost functions. The equation of the Cobb-Douglas type production function can be written as follows:  $Y_i = A \cdot X_1^{\beta^1} \cdot X_2^{\beta^2} \cdot X_3^{\beta^3} \cdot \dots \cdot X_n^{\beta^n}$  (1)

Here, this function is homogeneous of degree  $s\beta_i$  and the  $s\beta_i$  indicates the coefficient of the scale; if the  $s\beta_i$  is greater than 1, this means that economies of scale exist.

Based on these economic theories, a Cobb-Douglas type production function was estimated employing the co-operative business volume as the dependent variable ( $Y$ ), and the number of employees ( $X_1$ ) and fixed assets or borrowings for the facilities ( $X_2$ ) as the independent variables

As the dependent variables, banking and marketing business volumes were selected. Out of the banking business, savings volumes, co-operative insurance premiums and mutual loan amounts were employed. Out of the marketing business, selling agricultural products and supply volumes for daily necessities were adopted.

As the independent variable, the number of employees was selected to represent the size of the labour force, and the fixed assets or borrowings for facilities were employed as a proxy variable to represent the capital amounts. The amount of land was not considered, since the influence of the land in the co-operative business would be minimised. Considering these assumptions, the equation can be written again as follows using the logarithm.

$$\ln Y_i = \ln A + \beta_1 \ln X_1 + \beta_2 \ln X_2 \quad (2)$$

s.t.

$Y_i$ : savings, co-operative insurance premium, mutual loan, marketing of agricultural products, daily necessities supply

$X_1$ : Number of employee,

$X_2$ : Fixed assets, borrowings for facilities,

$\ln$ : Natural logarithm,

$\beta_1, \beta_2$ : Parameters to be estimated

The results show that savings and co-operative insurance businesses have not reached the stage of economies of scale. In the case of mutual credit loans, it is judged that economies of scale have been slightly achieved, while in case of marketing and the daily necessities supply business it is hard to judge whether economies of scale have been achieved through the mergers because of the statistically insignificant level of the variables.

## Conclusion

Even though the business volume of the merged co-operatives increased dramatically, the results of the interview survey and econometrics analysis make it hard to judge whether there have been any significant economies of scale.

This does not necessarily mean that the merger programme was unnecessary or should have been opposed, but rather that the results are not yet sufficiently tangible because of the general economic depression in agricultural and rural society, and the side-effects of the merger process.

Therefore, it would be wise to merge co-operatives up to the point where the economies of scale can be achieved, while at the same time the closer relationships of the co-operative members are not spoiled.

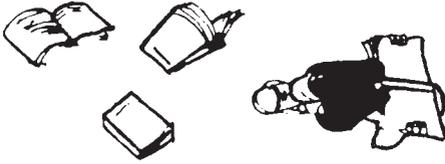
However, as we cannot easily define exactly where that point is, further and intensive studies will be recommended.

**Table 8. Existence of Economies of Scale in Agricultural Co-operative Businesses**

		Parameters	Probability	Remarks
Saving ( $Y_1$ )	Number of employee( $X_1$ )	0.7578 (4.7166)	P < 1%	Statistically significant Statistically significant Diseconomies of scale Even though the data is cross sectional $R^2$ is comparatively high
	Fixed assets( $X_2$ ) $Sb_1$ $R^2$	0.1290 (2.1193) 0.8868 < 1.0 0.6265	P < 1%	
Co-op Insurance ( $Y_2$ )	Number of employees ( $X_1$ )	0.8280 (3.6286)	P < 1%	Statistically significant Statistically insignificant Since $X_2$ is statistically insignificant, it is hard to judge the existence of diseconomies of scale
	Borrowing for facilities ( $X_2$ ) $Sb_1$ $R^2$	0.0274 (0.7659) 0.8555 < 1.0 0.3362	P > 10%	
Mutual loan ( $Y_3$ )	Number of employee ( $X_1$ )	1.0198 (5.7661)	P < 1%	Statistically significant Statistically insignificant Since $X_2$ is statistically insignificant, it is hard to judge the existence of economies of scale
	Fixed assets ( $X_2$ ) $Sb_1$ $R^2$	0.0305 (1.0971) 1.0504 > 1.0 0.5725	P > 10%	
Marketing ( $Y_4$ )	Number of employees ( $X_1$ )	0.3447 (1.2814)	P > 10%	Statistically significant Statistically insignificant Since $X_1$ , $X_2$ are statistically insignificant, it is hard to judge the existence of diseconomies of scale
	Fixed assets ( $X_2$ ) $Sb_1$ $R^2$	0.0008 (0.0081) 0.3455 < 1.0 0.0073	P > 10%	
Daily necessities supply ( $Y_5$ )	Number of employees ( $X_1$ )	0.9516 (3.085)	P > 10%	Statistically significant Statistically insignificant Since $X_1$ , $X_2$ are statistically insignificant, it is hard to judge the existence of diseconomies of scale
	Fixed assets ( $X_2$ ) $Sb_1$ $R^2$	0.4088 (0.8368) 1.0494 > 1.0 0.3502	P > 10%	

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# Book Review

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## Managing the Co-operative Difference

by Dr. Peter Davis – Published by the International Labour Organisation  
ISBN 92-2-111582-8 First published 1999

This survey of the application of modern management practices in the co-operative context, authored by Dr. Peter Davis of the University of Leicester, is a valuable guide to good management technique. It shows the common ground between a value-led business approach and co-operative values and principles. In addition, it is a reasoned, provocative and tenacious advocacy of co-operatives and their potential to provide for human welfare and well-being.

An exposition is given of the prerequisite tools and competencies that members should expect of their officials as sound administrators. The section on business process re-engineering reminded me of how Baron Eugene-Georges Haussmann, the 19th century Prefect of the Seine, widened, straightened and opened up the thoroughfares, thereby remodelling the greater part of Paris. Dr. Davis has similar ambitions for a model co-operative management. I understand him to be advocating that management is more than the challenge of making the probable possible, but that it should address to the membership the question of what it is we wish to make possible and by

what means. “Modern management, modern markets and modern society are all looking for essentially co-operative solutions to the otherwise serious problems of injustice, poverty, destruction of environmental systems vital to the quality of life on earth and the fragmenting communities upon which the very definition of our humanity depends.”

By concentrating on management, Dr. Davis does not seek to undermine democratic governance, but to strengthen it by delivering up to Boards real strategic options. Some may balk though at the suggestion that executive officials should sit on Boards, particularly in the UK, where the restructuring of the CWS Board in the 1960s, making it non-executive to revive decision-making vigour, still casts a long shadow. However, if a class of organisations underperforms, we are entitled to ask what it is in their make-up that hampers them. In this book co-operative failure to innovate is addressed head on. Poor management practices may or may not be the cause but they are part of the problem, whether or not one uses the analogy with a bureaucratic “civil service” style. Management profes-

sionalism and a human-centred approach are offered as a solution: “Without the discipline of profitability criteria the co-operative needs to find other criteria to measure management performance against.” So that performance might be judged according to co-operative purposes, seven principles of co-operative management are expounded: pluralism, mutuality, individual autonomy, distributive justice, natural justice, people-centredness and the multiple role of work. They provide the platform upon which policy can evolve and upon which sound human resource management can be built. Here lies an important issue: “the communication of culture to support the devolution of managerial responsibility for HRM and the achievement of operational objectives.”

At the ends of chapters Dr. Davis suggests a number of practical measures which he believes arise from his analysis. He is brave in doing so, for the action points read by themselves may lose some of their impact and risk criticism to the avoidance of the harder questions raised through the pertinence of his full analysis. One would not be expected to agree with all of Dr. Davis’s views. For example, an international co-operative brand licensed globally is fine in principle.

A couple of years ago I raised a similar idea with a group of Latin American consumer co-operative managers to hear, with consternation, that the most logical brand identity would locally be associated with a previous society that

had not done so well. An important concept introduced is that of World Class Co-operative Quality. Uniquely it asks, “In operational terms have we built in those social, environmental, and ethical standards identified as important by our customers?” I am also taken by the suggestion that “Mutuality requires the customer to accept responsibility for quality as well as demand it from others”; it seems to add a new angle on participation.

A conclusion is drawn that “organisations operating on the basis of community and mutuality are best placed to define customer quality standards as they can situate the whole person in their community... This provides a potential for identification of additional added value for the consumer and hence a competitive advantage for the co-operative.” Indeed, the successful transformation of The Co-operative Bank in the UK is given as a model of what can be achieved by conducting business through such means. And so we come back to the central premise, that mainstream thinking about society, discontent with a primitive ideology that the market is all, is returning to address the community issues of sustainable development, social justice and community development. Not only do co-operatives have a purpose in modern society, they have an obligation to fulfil it through value-led enterprise. Co-operative management that champions this approach can and has a responsibility to lead the way.

*Gregor McDonagh*

# Interim Report of the Audit & Control Committee for the Year 1999

The Audit & Control Committee is issuing the following interim report for the year 1999. This will form part of the complete report for the period 1999-2000, which will be delivered to the General Assembly in 2001.

The Committee has had the following composition during the period : Mr Ivar O. Hansen of NBBL Norway (Chairman), Mr Pál Bartus of Co-op Hungary, Mr Wilhelm Kaltenborn of Konsumverband Germany, Ms Gun-Britt Mårtensson of HSB Sweden and Mr Shigenori Takemoto of JCCU Japan. Mr Claes Thorselius, the ICA Deputy Director-General, is the permanent Secretary to the Committee. The Chairman is also a permanent observer to the Finance Committee of the ICA Board

The Committee has held two meetings in the past year. The first one, in conjunction with the Quebec General Assembly, focused on the review of the financial and organisational situation as initiated by the Board in April 1999, the relationship between the Committee and the Board and a look at the budget and audit work for year 2000. The second meeting, in May 2000, was devoted to the 1999 Accounts, the Financial Statements and the Report of the Auditors.

Through these meetings, we have formed the opinion that:

1. The structure and organisation of work has functioned well and been most cost efficient.
2. The routines and control mechanisms are in general appropriate and well functioning. The Committee is however recommending that the policies on approval of development projects and on signing authorities are reviewed.
3. The Committee is pleased with the Board's decision to establish a Finance Committee of the Board. This should help to avoid some misunderstandings that have arisen in the past, and help ensure the timely approval of the annual budget.
4. As seen from the accompanying Report of the Auditors and Financial Statements, the auditors have issued a clean opinion.
5. The small surplus of ordinary activities in 1999, of CHF 2,575, was upset by the need to assume extraordinary losses on a statistical project from previous year. The final result in the 1999 statements is therefore a deficit of CHF 118,925. Two regional offices, Americas and Asia, also incurred deficits, which in both cases were adjusted against their Special Regional Funds.

6. In 1999, an amount of CHF 26,116 was included under Other Receivables for recovery from a former regional office staff member. In the middle of the year 2000 it became clear that the actual value was CHF 15,377. The balance of CHF 10,739 has resulted in a write-off in the year 2000 that should have affected the financial year 1999.
  7. Our proposal to the 2001 General Assembly will be that:
    - The 1999 Accounts are approved as presented and
    - The deficit is covered from the General Reserve.
-

# ICA Financial Statements for the year 1999

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## Independent Auditor's Report

To the Members of the

### INTERNATIONAL CO-OPERATIVE ALLIANCE

We have audited the accompanying consolidated financial statements on pages 4 to 18 which include the consolidated balance sheet of the International Co-operative Alliance at December 31, 1999 and the related consolidated statement of revenue and expenses and the consolidated statement of cash flows for the year then ended. These financial statements are the responsibility of the International Co-operative Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the International Co-operative Alliance at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

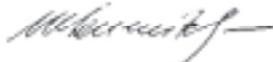
Our examination has been made primarily for the purpose of expressing an opinion on the financial statements taken as a whole. The accompanying Schedules I, II and III are presented as additional information for analysis purposes. While they are not required under International Accounting Standards for a fair presentation of the financial statements on pages 4 to 18, they have been subjected to the tests and other auditing procedures applied in the examination of the financial statements mentioned above.

Geneva, June 7, 2000

ATAG Ernst & Young



Mark Hawkins  
Chartered Accountant  
(Auditor in Charge)



Maria Saumitcheva  
Chartered Certified Accountant

# ATAG ERNST & YOUNG AG offices in Basel, Bonn, Berlin, Brno, Cologne, Frankfurt, Geneva, Innsbruck, Lucerne, Lugano, Neuquén, Zürich, 44-45-46-47-48-49-50-51-52-53-54-55-56-57-58-59-60-61-62-63-64-65-66-67-68-69-70-71-72-73-74-75-76-77-78-79-80-81-82-83-84-85-86-87-88-89-90-91-92-93-94-95-96-97-98-99-00  
# Member of the Swiss Chamber of Auditors

**INTERNATIONAL CO-OPERATIVE ALLIANCE**  
**CONSOLIDATED BALANCE SHEET**

**December 31, 1999**

	Notes	1999	1998
		CHF	CHF
<b><u>Assets</u></b>			
<i>Current assets</i>			
<i>Cash and interest bearing deposits</i>	4	2,688,125	2,504,289
<i>Accounts receivable</i>	5	673,143	704,513
<i>Other receivables &amp; prepaid expenses</i>	6	477,181	420,974
<b>Total current assets</b>		<b>3,838,449</b>	<b>3,629,776</b>
<i>Fixed assets</i>			
<i>Deposits and guarantees</i>	7	206,226	161,280
	8	37,562	39,691
<b>Total assets</b>		<b>4,082,237</b>	<b>3,830,747</b>
 <b><u>Liabilities, Funds and Reserves</u></b>			
<b><u>Liabilities</u></b>			
<i>Membership organisation creditors</i>		313,790	387,457
<i>Other liabilities, accruals and provisions</i>	9	910,197	941,011
<i>Deferred development support</i>		1,594,037	1,045,518
<b>Total liabilities</b>		<b>2,818,024</b>	<b>2,373,986</b>
 <b><u>Funds and reserves</u></b>			
<i>Regional special funds</i>	11	( 44,896)	28,727
<i>General reserve</i>	12	1,278,034	1,260,381
<i>Development Trust Fund</i>		150,000	150,000
<i>Balance of (deficit)/surplus of activity</i>		( 118,925)	17,653
<b>Total funds and reserves</b>		<b>1,264,213</b>	<b>1,456,761</b>
<b>Total liabilities, funds and reserves</b>		<b>4,082,237</b>	<b>3,830,747</b>

**INTERNATIONAL CO-OPERATIVE ALLIANCE**  
**CONSOLIDATED STATEMENT OF REVENUE AND EXPENSES**

***For the year ended December 31, 1999***

	<u>Notes</u>	<u>1999</u>	<u>1998</u>
		CHF	CHF
<b><u>Revenue</u></b>			
<i>Head office operational revenue</i>			
Subscriptions		2,152,488	2,233,484
Interest income		153,077	103,741
Publications and services		89,031	96,906
Other net income		779,980	295,358
Total head office operational revenue		3,174,576	2,729,489
<i>Direct development support:</i>			
Head Office		387,099	853,750
Asia & the Pacific		1,426,594	1,409,818
East, Central & Southern Africa		864,264	731,149
West Africa		524,521	405,356
The Americas		1,304,681	1,834,619
Total direct development support		4,507,159	5,234,692
<b>Total revenue</b>		7,681,735	7,964,181
<b><u>Expenses</u></b>			
<i>Head Office operational expenses</i>			
		2,704,992	2,347,687
<i>Development programme expenses</i>			
Head Office - secretariat		624,108	1,004,731
Asia & the Pacific		1,476,594	1,459,818
East, Central & Southern Africa		939,264	806,149
West Africa		579,521	460,356
The Americas		1,354,681	1,884,619
Total development programme expenses		4,974,168	5,615,673
Total expenses		7,679,160	7,963,360
Surplus from ordinary activities		2,575	821
Extraordinary expense	13	( 121,500)	-
(Deficit)/surplus of activity		( 118,925)	821
Balance of activity carried forward		17,653	16,832
Allocation to the general reserve	12	( 17,653)	-
Balance of (deficit)/surplus of activity		( 118,925)	17,653